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Select Committee on Economic Affairs

Ontario Trade Review

Final Report

2nd Session 33rd Parliament
35 Elizabeth II



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The Honourable Hugh Edighoffer, M.P.P.
Speaker of the Legislative Assembly

Sir,

Your Select Committee on Economic Affairs has the honour to present the Report required by its Order of Reference and recommends that it be considered by the House at the earliest opportunity.

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Queen's Park
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TABLE OF CONTENTS

	<u>Page</u>
PREFACE	1
INTRODUCTION	3
CANADA'S TRADE SITUATION	7
THE BACKGROUND OF BILATERAL TRADE NEGOTIATIONS	11
ONTARIO'S TRADE	14
THE TRADE DEBATE	16
CANADA'S TRADE RELATIONSHIPS	22
Recommendations 1, 2	25
Recommendation 3	26
Recommendation 4	28
Recommendation 5	30
Recommendation 6	31
Recommendation 7	33
CANADA-UNITED STATES TRADE RELATIONS	34
Recommendations 8, 9	34
Recommendation 10	35
Recommendations 11, 12, 13, 14	38
Recommendation 15	40
Recommendation 16	42
Recommendation 17	43
Recommendations 18	45
Recommendations 19, 20	47
Recommendation 21	48
Recommendation 22	49
Recommendation 23, 24	52
Recommendations 25, 26	54
Recommendation 27, 28	56
Recommendations 29, 30	58
THE ADJUSTMENT PROCESS	59
Recommendations 31, 32, 33	60
Recommendation 34	61
Recommendation 35, 36, 37	63
Recommendations 38	64
Recommendations 39, 40	65
LIST OF RECOMMENDATIONS	66
INDEX	73
APPENDIX A - LIST OF RECOMMENDATIONS FROM THE INTERIM REPORT	A-1

TABLE OF CONTENTS (Continued)

	<u>Page</u>
APPENDIX B – TERMS OF REFERENCE	B-1
APPENDIX C – LIST OF WITNESSES	C-1
APPENDIX D – LIST OF SUBMISSIONS	D-1
APPENDIX E – SUMMARY OF COMMISSIONED STUDIES	E-1
APPENDIX F – NEW DEMOCRATIC PARTY DISSENT	F-1



PREFACE

This report is the Final Report of the Select Committee on Economic Affairs on the options for bilateral trade between Canada and the United States, and their implications for Ontario. The Select Committee on Economic Affairs tabled an Interim Report in the Legislature on these matters on November 7, 1985 after conducting public hearings from July through October.

While preparing its Interim Report, the Select Committee on Economic Affairs commissioned four research studies on the possible economic consequences for Ontario of a bilateral free trade agreement between Canada and the United States. (Copies of these studies are available through the Clerk of the Committee.) The Committee reviewed the results of these studies in April, and held further public hearings during April, July and August 1986. Officials from the Department of External Affairs briefed the Committee in Ottawa on August 11 and 12 on the current state of the bilateral free trade negotiations and on the upcoming multilateral trade negotiations. The Committee was in Washington, D.C., from July 22 through 24, 1986, where it held discussions with some members of the U.S. Congress. Officials of the Canadian Embassy in Washington briefed the Committee, and arranged discussions with officials and staff of the U.S. Congress and Government, as well as some knowledgeable private individuals.

The Select Committee on Economic Affairs thanks each of the witnesses for sharing their knowledge and concerns. Their oral and written submissions have made a substantial contribution to the Committee's understanding of the complex issues involved.

The Committee also wishes to thank the following officials of the Ontario Government and their respective staff who informed the Committee and assisted throughout the deliberations: Dr. C. Switzer, Deputy Minister of Agriculture and Food; Mr. B. Webber, Assistant Deputy Minister, Ministry of Consumer and Commercial Relations; Mr. P. Lavelle, Deputy Minister of Industry, Trade and Technology; Mr. G. Posen, Deputy Minister of Intergovernmental Affairs; Mr. R. Latimer, Special Trade Policy Advisor;

Mr. K. Armson, Ministry of Natural Resources; Mr. J. Finlay, Ministry of Northern Development and Mines; and Dr. B. Purchase, Assistant Deputy Minister and Chief Economist, Ministry of Treasury and Economics. The Committee thanks the many other people in the Ontario Government who also assisted its work.

Officials of the Department of External Affairs Canada provided valuable information and assistance to the Committee. The Committee wishes to thank the Honourable Thomas Hockin, Minister of State for Finance; Ms. S. Ostry, Ambassador for Multilateral Trade Negotiations; Mr. A. Nymark, Assistant Chief Negotiator, the Trade Negotiations Office; and Mr. D. Campbell, Assistant Deputy Minister, Department of External Affairs Canada. Ambassador A. Gotlieb and Counsellor J. St. Jacques of the Canadian Embassy in Washington, D.C., hosted the Committee and arranged fruitful discussions with members of both houses of Congress, officials of the United States Government and congressional staff.

The Select Committee has been ably assisted by its staff and expresses its appreciation to them. Committee staff include: Clerks Douglas Arnott and Franco Carrozza; and Principal Research Officer Fernando Traficante of the Legislative Research Service; assisted by Research Officers Barbara Cotton and David Neufeld.

INTRODUCTION

Canada is currently engaged in trade negotiations on two fronts, the results of which will have important consequences for the health of the Canadian economy for many years to come. Bilateral free trade negotiations are underway between Canada and the United States. A new round of multilateral negotiations under the General Agreement on Tariffs and Trade (GATT) is in the preparatory stages and should begin in earnest soon. The uncertainty that surrounds both sets of negotiations is underscored by the difficulty in assessing what, in fact, would be the best result for Canada's and Ontario's economies. Important segments of Canada's population and important regions in the country have differing views on what should be achieved by these negotiations.

The Select Committee on Economic Affairs of the Ontario Legislature has spent a considerable amount of time examining the issues involved in these negotiations. The conclusions that the Committee has reached represent an effort to deal with the problems and opportunities in the trading relationships of both the country and the province, and to make some recommendations as to how these trade negotiations can be used to improve the trade environment and the economy. Members of each of three parties represented in the Legislature participated fully in the discussions and the debates over the recommendations. While overall agreement among the members of the Committee was not possible, the recommendations contained in this Final Report express a consensus on each of the specific matters discussed therein. However, members of the New Democratic Party did not agree with the perspective and direction of the majority on the Committee and their dissent is enclosed as an appendix to the report.

It is unlikely that this report, and the recommendations the Committee has made, will reconcile the differing perspectives on trade which exist in both the province and the country. The Select Committee on Economic Affairs hopes that its work will help to clarify the discussion and, perhaps, indicate a direction that can be taken to improve Canada's trading performance while ensuring the integrity of its distinct way of life.

The Select Committee on Economic Affairs has tried to place its Final Report into the context of trade talks that are already underway. The bilateral trade negotiations were initiated by Prime Minister Mulroney on September 26, 1985 when he informed President Reagan of Canada's interests in pursuing a new trade agreement with the United States. He stated that:

We seek to negotiate the broadest possible package of mutually beneficial reductions in tariff and non-tariff barriers between our two countries.

We are not negotiating a customs union, a common market or any other economic arrangement which would affect our own independence or our relations with the rest of the world.

(House of Commons, September 26, 1985)

That announcement began a political process in the United States which culminated in Congress giving its consent to the bilateral trade negotiations. Congressional consent is required for any formal trade negotiations because the U.S. Congress has constitutional responsibility for trade matters, but it has allocated conditional authority for trade negotiations to the executive under the trade laws. This approval was obtained only after extended debate in the Senate Finance Committee and a tied vote on beginning the negotiations. The initial stage of the trade negotiations between Canada and the United States began in Ottawa on May 21, 1986.

The next round of multilateral trade negotiations under the GATT have just begun with a meeting held in Punta del Este in Uruguay in mid-September. This is the first time that GATT negotiations have been launched in a third world country. These negotiations are of particular significance because they are occurring at a time when the international trading system is suffering severe strains. Countries are extremely interdependent. A trading system which satisfies the divergent needs of a wide variety of economic conditions is required if countries are to grow and prosper. The new GATT round of trade negotiations by itself will not prevent countries from becoming protectionist in the face of international pressures. But it is necessary if protectionism is to be prevented.

The terms of reference of the Select Committee on Economic Affairs were focussed on the bilateral trade options for enhancing economic development in Canada and in the province. Although trade relations between Canada and the United States have received the bulk of the Committee's attention, these trade relations can only be handled in the context of how the province trades with the other provinces in Canada and how Canada trades with the rest of the world. Therefore, the Committee has directed its recommendations to both the Government of Canada and the Government of Ontario.

Many subjects included in this Ontario Trade Review are beyond the jurisdiction of the Government of Ontario but are, nonetheless, of serious concern to the people of the province. There is no ready solution to the trade problems that Canada is encountering and will try to solve through these negotiations. An open dialogue among the people of Canada, the provinces and the federal government may not produce a consensus. However, such a dialogue is the prerequisite to successful trade negotiations and must occur before any trade agreement, whether bilateral or multilateral, can be put in place.

The Select Committee on Economic Affairs has confined its Ontario Trade Review to the broad issues of public policy that are most closely related to the outcome of these trade negotiations. Most items of the extensive and detailed terms of reference of the Select Committee on Economic Affairs have received the kind of review that may have been intended by the Legislature. The complexity and scope of the broad issues of bilateral trade relations may have overshadowed some of the other, no less important, issues. But the problems of how a national or provincial economy might adapt to such a far-reaching new policy is unexplored territory. There is much speculation and few facts. Although the information provided by witnesses before the Committee may not have been conclusive on the overall question of bilateral free trade, the witnesses' detailed perspectives were particularly useful in establishing the framework for the Committee's conclusions.

The Select Committee on Economic Affairs believes that the concerns it raises in this report are serious. The manner in which they are resolved will shape the political, social, cultural and economic environment of the country for some time to come. Therefore, the Select Committee on Economic Affairs of the Ontario Legislature hopes that the recommendations it makes in dealing with these concerns in the Final Report of its Ontario Trade Review will provide some direction to the Governments of Ontario and of Canada in these matters.

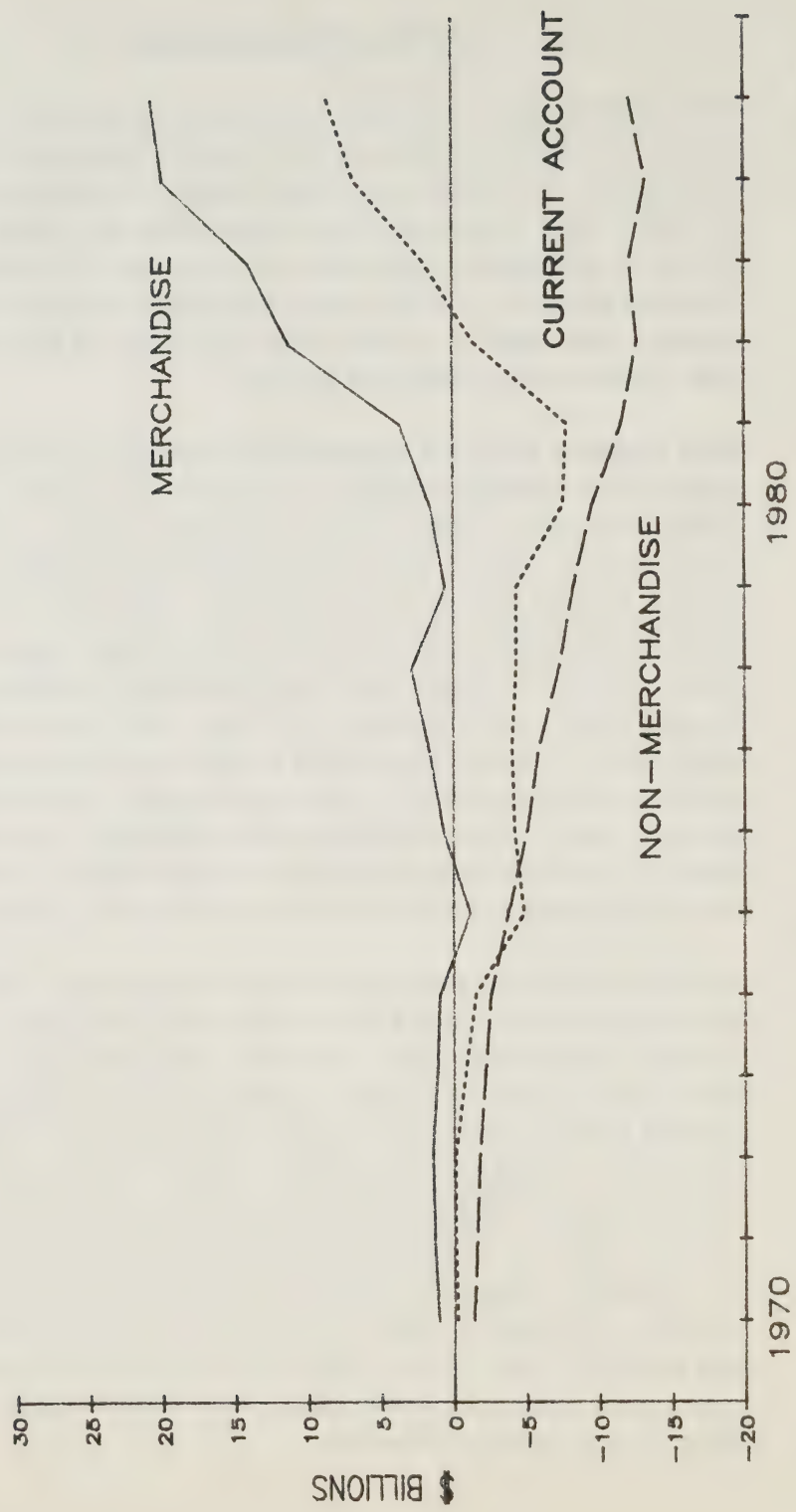
CANADA'S TRADE SITUATION

Canada depends upon a harmonious international trading system at least as much as, and perhaps more than, any other country in the world. The earliest development of the country was the direct result of the movement of people to regions where they could produce commodities for trade. Changing patterns of international trade continue to set the pace of economic activity throughout the country. For this reason, the prolonged instability in the world economy, which began in the early 1970s, has brought the issue of Canada's trade relations into the forefront of concern.

Three changes in the trading environment bear particular attention if one is to appreciate the uncertainty facing both Canada's and Ontario's established trading relationships. First, Canada's competitive position has fluctuated erratically as a result of world events coupled with the entry of several dynamic countries into the world marketplace which reduced the relative international economic power of the United States, Canada's principal trading partner. Second, our economy has become increasingly dependent on trade at the same time as we have come to rely more heavily on our trade with a single partner. Third, the United States remains the strongest economy in the world but its recent deficit in trade has produced a rising protectionist sentiment there. This protectionism could have serious consequences for Canada. It is these three circumstances which Canada's involvement in bilateral and multilateral trade negotiations is attempting to address.

Canada's share of total world trade has fallen steadily since 1945. A much more severe decline in the U.S. share of international trade also took place in that time. Most of this change is the result of the greater trade activity of other nations. Japan and Germany especially, and some rapidly developing countries such as South Korea, Taiwan and Singapore, have become major participants in international markets. At the same time, Canada's competitive position weakened in the early 1970s due to higher wage and price increases relative to the United States. This deterioration was later offset by the remarkable strength of the U.S. dollar relative to all other major currencies. The Canadian dollar fell in relation to the U.S. dollar over the past decade but it also varied in tandem with the U.S. dollar relative to the other major currencies. Canada became more competitive in the United States and less competitive elsewhere.

CANADA/U.S. BALANCE OF PAYMENTS

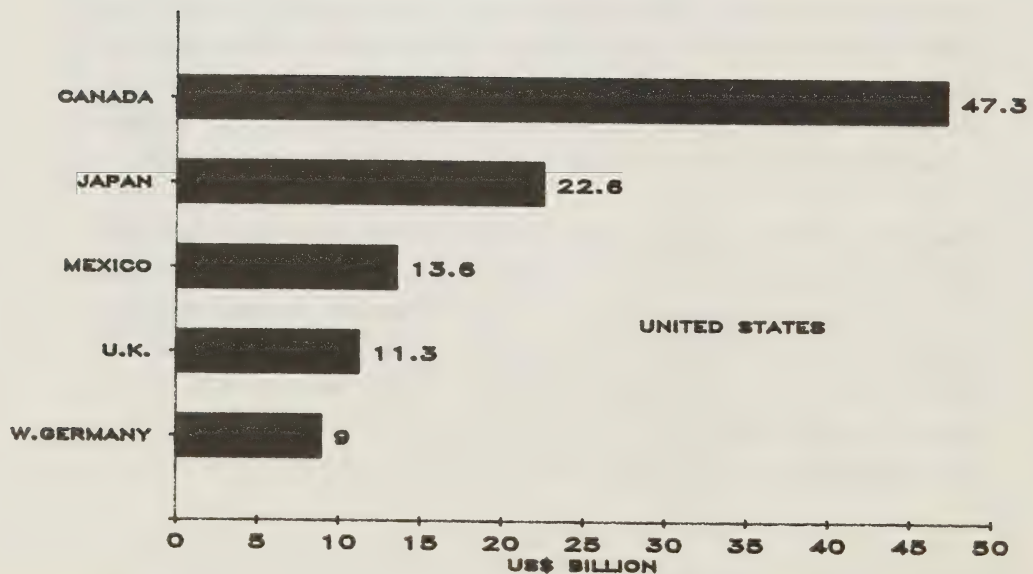
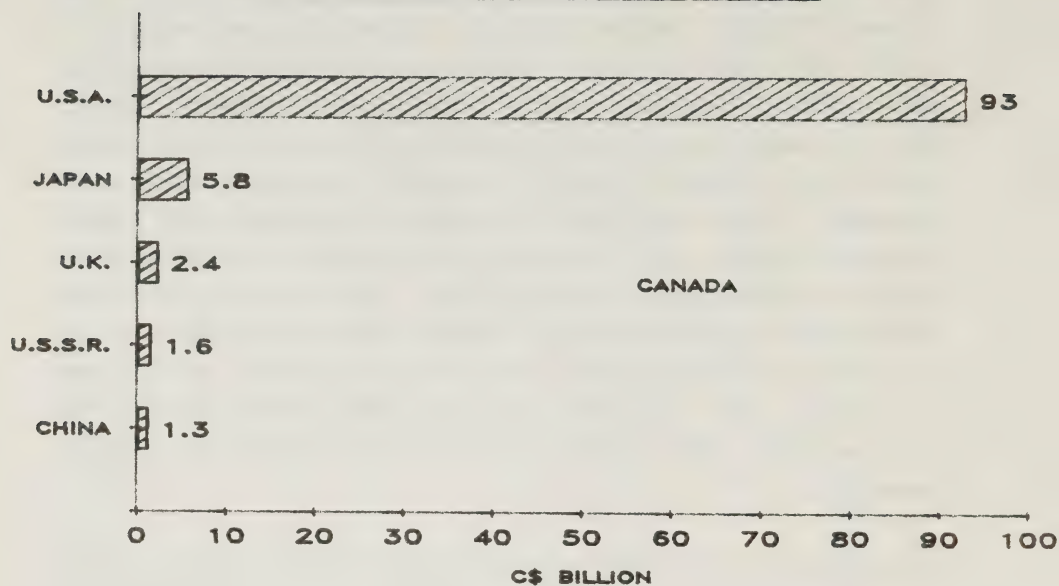


The volatility in the world currency markets has been reflected in the patterns of Canada's international trade. Exports and imports constitute a growing portion of the country's economic activity. Both increased from about a quarter to almost a third of economic activity between 1950 and 1985. The federal government has estimated that three million jobs depend on exports and 1.2 million of Canada's manufacturing jobs were in export related production. A slow improvement in Canada's merchandise trade balance occurred in the late 1970s. Exports expanded rapidly in the first half of the 1980s, outstripping the pace of import growth. The result of this favourable merchandise trade balance was that Canada's current account balance, which is comprised of merchandise and service trade and transfers, was in surplus from 1981 to 1984 – the first surplus since 1973. Exports had grown so significantly that they overwhelmed Canada's longstanding deficit in services transactions.

Perhaps the most noteworthy feature of the improvement in Canada's trade picture is the fact that it has been substantially the product of expanded Canada–U.S. trade. Both exports and imports with the United States have grown, but exports at a faster pace. A swelling merchandise trade surplus with the United States during the 1980s has been accompanied by a shrinking surplus with the rest of the world that finally became a deficit in 1985. The trade in motor vehicles and parts between Canada and the United States has been a major factor in the growth of this merchandise trade surplus. Increased automotive production, spurred by the recovery from the recession in the United States, directly contributed to ending the recession in Canada.

These shifts in Canada's trading patterns can be attributed to the weakness of the Canadian dollar in relation to the U.S. dollar, combined with the strength of both currencies relative to other major currencies. By 1985 Canadian exports to the United States comprised seventy-eight percent of all exports, a rise of almost thirteen percentage points from the U.S. share in 1975. During this same period exports to the European Community shrank by almost seven percentage points, to a 5.6 percent share in 1985 from 12.5 percent in 1975.

MAJOR MARKETS, 1985



SOURCE: STATSCAN, US DEPT OF COMMERCE

Increasing dependence upon the United States as a market for Canadian products has happened at a time when the United States is itself undergoing a tremendous change in its economy. International trade has become a more significant component of the U.S. economy. Between 1970 and 1985, the export of goods and services grew from 6.5 percent of gross national product to 9.3 percent. Imports of goods and services grew more dramatically from 5.8 percent in 1970 to 11.2 percent in 1985. Merchandise trade has been in continuous deficit since 1975; severe deterioration in the trade situation since 1980 brought the deficit to \$122.3 billion (U.S.) in 1985. The current account balance suffered a rapid turnaround, falling from a surplus of \$4.6 billion (U.S.) in 1981 to a deficit of \$115.3 billion (U.S.) in 1985. This was the result of capital outflows from government interest payments to foreigners and transfers which, combined with the merchandise trade deficit, overwhelmed a surplus in service trade. Merchandise trade and current account deficits represent 3 percent and 2.9 percent of gross national product respectively.

At the same time as Canada has increased its exports to the United States, Canada has been a receptive market for U.S. products. Canada purchases more U.S. exports than any other country in the world. Their second largest market, Japan, which has more than four times the population of Canada, accepts less than half as much in U.S. exports as Canada does. (Ontario is the United States' third most active trading partner, after Canada as a whole and Japan.) Between 1980 and 1985, a period when total U.S. exports declined both in real and nominal terms, U.S. exports to Canada grew at a faster annual average rate than exports to any other western country. The Union of Soviet Socialist Republics was the only country whose imports of U.S. goods grew faster than Canada's and this was largely due to the elimination of the U.S. embargo on wheat sales which occurred when President Reagan took office.

The United States was the first country to come out of the international recession in 1981-82. A rising U.S. dollar and a buoyant consumer market spurred imports, helping to end the recession in many other countries. But the higher U.S. dollar also made many U.S. products uncompetitive in their domestic market and internationally. Unfavourable currency movements, accompanied by a shifting industrial structure, have roused serious concern in the United States over the management of their economy.

Most recently this concern has been reflected in an increased protectionist sentiment that has resulted in the initiation of numerous protectionist bills in the Congress. Two of the most notable of these are the U.S. Food Security Act, whose implications are just now beginning to be felt, and the omnibus trade bill, the Trade and Economic Policy Reform Act, 1986 (House of Representatives Bill 4800), which has thus far only been passed by the House of Representatives. The former has dramatically altered the international market for farm products by increasing competition among countries to enrich their farm subsidy programs in order to maintain international sales. The omnibus trade bill, if it should become law, would have serious repercussions for all countries trading into the United States, including Canada.

Efforts to change existing legislation in order to protect U.S. industry from foreign competition have been accompanied by serious actions under the various contingency protection procedures available through existing U.S. trade legislation. These contingency protection actions can be initiated by government, industries, labour or other interested organizations in an effort to obtain redress from the harmful effects of increased imports. Contingency protection actions are investigated, often by a quasi-judicial tribunal, and a ruling on the justice of the action is made. If redress is ordered, the affected imports can have their access to the U.S. market severely restricted by special duties or quotas. Contingency protection actions have been initiated against Canadian imports with increasing frequency. Some Canadian exporters to the United States have considered these actions to be harassment. Although only a small number of rulings have been made against Canadian imports as a result of these actions, they have added to the uncertainty facing Canadians exporting to the U.S. market.

THE BACKGROUND OF BILATERAL TRADE NEGOTIATIONS

For the second time in this decade Canada has begun trade negotiations with the United States. From 1981 to 1984, trade negotiations with the United States were aimed at removing barriers to trade between the two countries on a sectoral basis, that is, at eliminating tariff barriers on an industry-by-industry basis. However, these discussions were stopped due to the inability of the parties to agree on which industries or sectors might be involved: industries where Canada wanted the removal of trade barriers were precisely those experiencing the strongest protectionist sentiment in the United States. Sectoral negotiations were originally begun because the Canadian government decided that the Third Option of opening up European markets, undertaken in the 1970s, had not been successful. The government wanted to use these sectoral negotiations to obtain an exemption for Canadian trade from U.S. protectionist actions that might be aimed primarily at the European Community and Japan. But the difficulty with sectoral trade negotiations lay in their makeup: there has to be mutual benefit in trade reductions in each industry for each country – which is unlikely. An industry in either country would be unwilling to suffer losses so another industry in the same country could benefit.

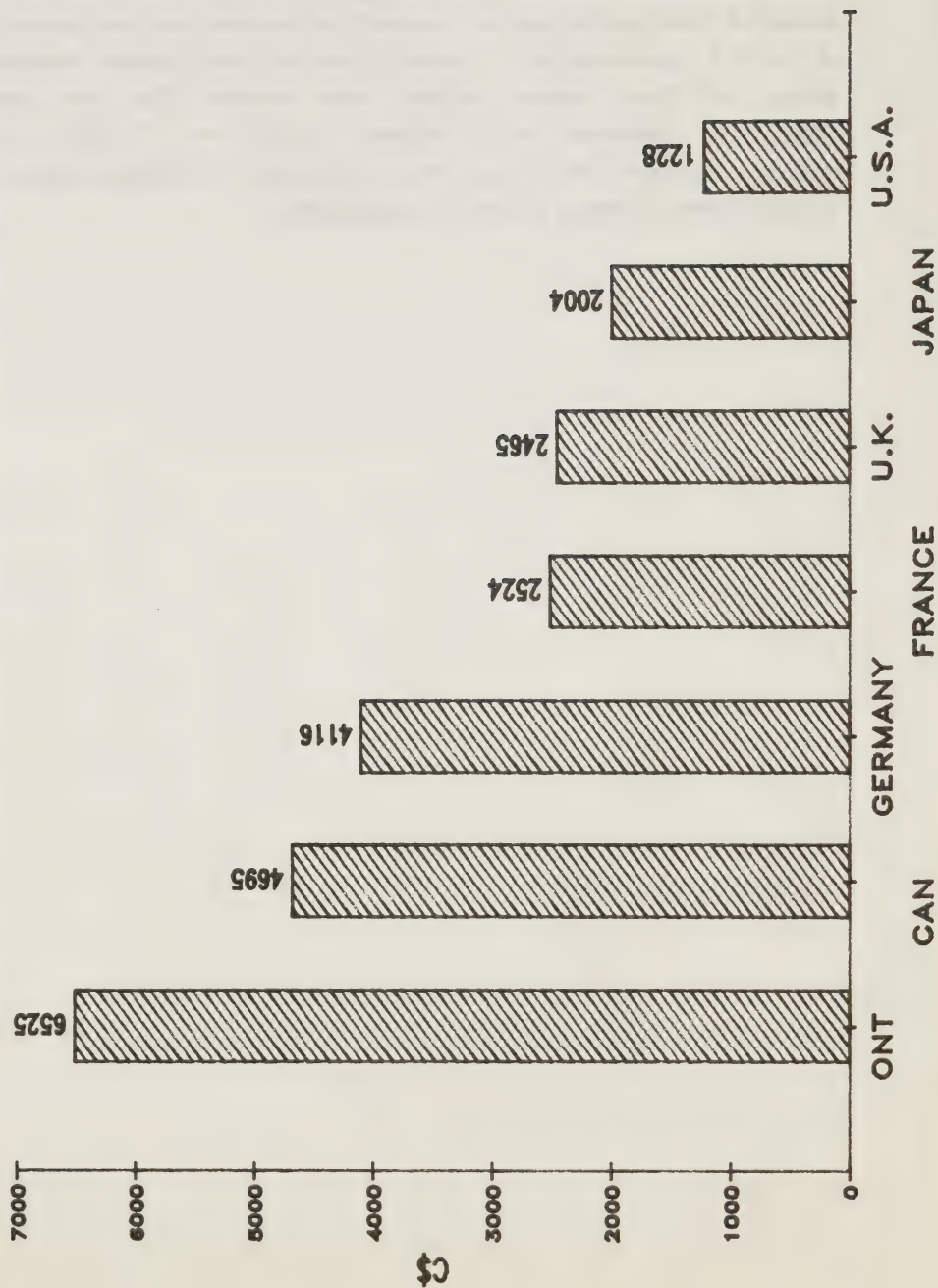
The Conservative government of Prime Minister Brian Mulroney has placed particular emphasis on its ability to ease the strains on Canada's relationship with the United States. It released two discussion papers in 1985 on the possible means of improving Canada's trade opportunities especially through bilateral free trade or sectoral free trade. The Special Joint Committee on Canada's International Relations of the federal Parliament held hearings across the country in the summer of 1985. The Committee's Interim Report, issued August 23, 1985, recommended that trade discussions with the United States should begin immediately, although formal trade negotiations were not to occur until certain conditions were met. On September 26, Prime Minister Mulroney announced that he had informed the President of the United States of Canada's interest in pursuing a new trade agreement.

Under the U.S. Trade and Tariff Act, 1984, the President of the United States cannot initiate trade negotiations. The executive branch must be requested to enter negotiations by another country. Furthermore, once the request is made, commencement of negotiations must have the consent of the responsible committees of both houses of the Congress. Trade is the constitutional responsibility of the U.S. Congress but Congress delegates the responsibility to the U.S. administration for set periods of time. The Trade Subcommittee of the House Ways and Means Committee chose not to debate the question of bilateral negotiations with Canada. But the Senate Finance Committee held hearings and only consented to negotiations in a tie, ten-ten vote. Although it is said that this vote represents the Senate's attitude to the U.S. government's handling of trade issues in general rather than representing an attack on Canada, the vote shows that the U.S. Congress is concerned about the effects of the trade deficit. Congress is certain to scrutinize the bilateral free trade negotiations closely because of its concern, because of its constitutional responsibility for trade matters and because Congress will have to approve whatever agreement results from the negotiations.

Preliminary discussions are now in progress between Canadian and U.S. trade negotiators. The nature of these discussions is not clear except that all trade sectors and questions are to be dealt with. Both parties are indicating what they want on each trade issue as it arises on the agenda. More detailed discussions are taking place in areas where some common ground exists. Once this preliminary stage is complete, in the fall of 1986, a decision will be made whether sufficient scope exists to begin full scale bilateral free trade negotiations. Because of legislative constraints, U.S. negotiators cannot discuss tariff reduction or elimination until the U.S. International Trade Commission completes its assessment on how such tariff reduction or elimination would affect U.S. industry. This assessment is to be completed in early 1987.

There are several, U.S. timetables that the bilateral free trade negotiators must meet. The current delegation of trade responsibility from the Congress to the administration expires in January 1988. If bilateral trade negotiations are not complete before then and Congress is not satisfied with the progress of the negotiations, Congress could easily impose special conditions on the content of these negotiations as a trade-off for renewing the trade authority of the U.S. administration. A second timetable exists because President Reagan and Prime Minister Mulroney have indicated they want these negotiations completed during President Reagan's term of office which expires at the end of 1988. Both of these circumstances will place pressure on the negotiators to reach a bilateral trade agreement.

EXPORTS PER CAPITA, 1985



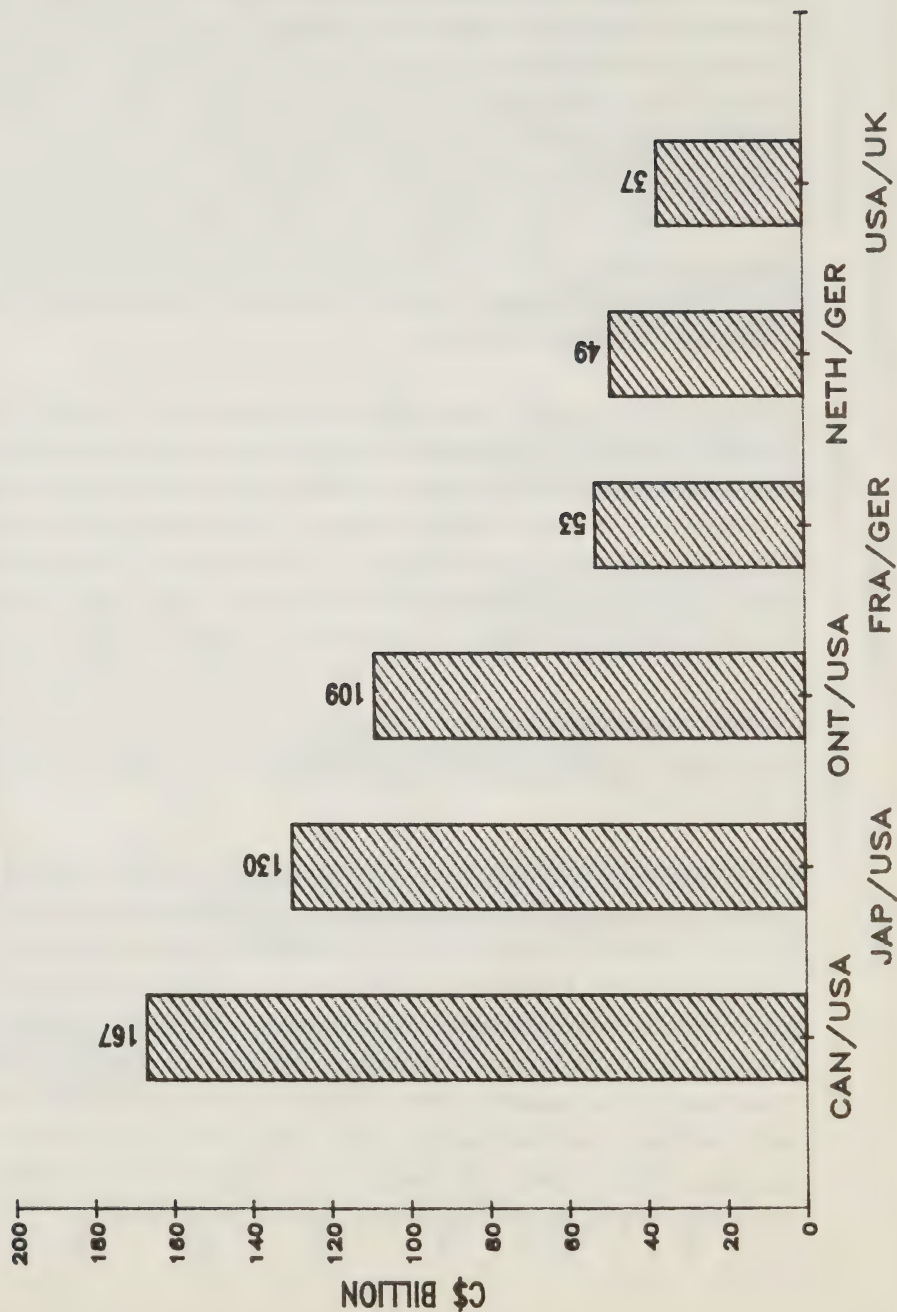
ONTARIO'S TRADE

The economy of Ontario has largely been built through trade. Products originating in the province are shipped to every part of Canada. Ontario exports to almost one hundred and fifty countries and imports from one hundred and thirty-five of them. The province produces and exports goods in virtually all of the product categories that Canada trades in. In addition, Ontario serves as the point of entry or exit for many products originating in other provinces. In 1985, about sixty-three percent of the country's total imports entered through Ontario. Some of these were directly transported to their customers in other provinces; some were used as inputs for Ontario manufactures later sold in other provinces; some were consumed in Ontario. About fifty percent of the country's total exports originated in Ontario or were exported from here last year.

The significance of the international marketplace for Canada's economic well-being should not obscure the fact that two-thirds of economic activity occurs as a result of Canadians providing goods and services for other Canadians. An efficient domestic economy is the prerequisite to an economy which is competitive internationally. At the same time, the revenue from international sales provides jobs and income for many people not directly involved in industries trading internationally. Imports supply many of the goods and services that Canadians might be unable to provide more cheaply. A healthy, dynamic domestic economy is the concern of all levels of government as they endeavour to improve the country's performance internationally.

The importance for the province of Ontario of an equitable outcome to both the multilateral and the bilateral trade negotiations is underscored by the province's position as the centre of manufacturing and as the largest trader. Ontario's interests in expanding its exports and enhancing international trade may differ in the particulars with the interests of other provinces, but all provinces have a fundamental need to expand their trade and to ensure that trade relations are secured in some fashion. Although Canada as a whole has had a surplus in its merchandise trade, Ontario has had a persistent, and growing, deficit. Both the country as a whole and the province have persistent and growing trade deficits in the trade of end products.

VALUE OF TWO-WAY TRADE, 1985



There are some significant differences between Canada's and Ontario's trade patterns. Over ninety percent of Ontario's exports go to the United States while about seventy-eight percent of Canada's go there. About eighty-three percent of the province's imports compared to seventy percent of Canada's imports come from the United States. Ontario trade comprises fifty-eight percent of Canada's exports to, and sixty-three percent of the imports from, the United States. The province's trade is correspondingly less diversified than the country as a whole, as Ontario has a much lower share of trade with the European Community and with the Pacific Rim countries than other regions in Canada. The makeup of trade also differs from other provinces. Over half of Ontario exports and about forty percent of imports consist of motor vehicles and automotive parts; virtually all of this trade is with the United States. Currently, a trade surplus exists in the province's motor vehicle trade with the United States which is large enough to counterbalance the deficit in automotive parts trade. The province is the source and the recipient of over ninety percent of automotive exports and imports. Furthermore, Ontario, like Canada as a whole, has a serious imbalance in its high technology trade.

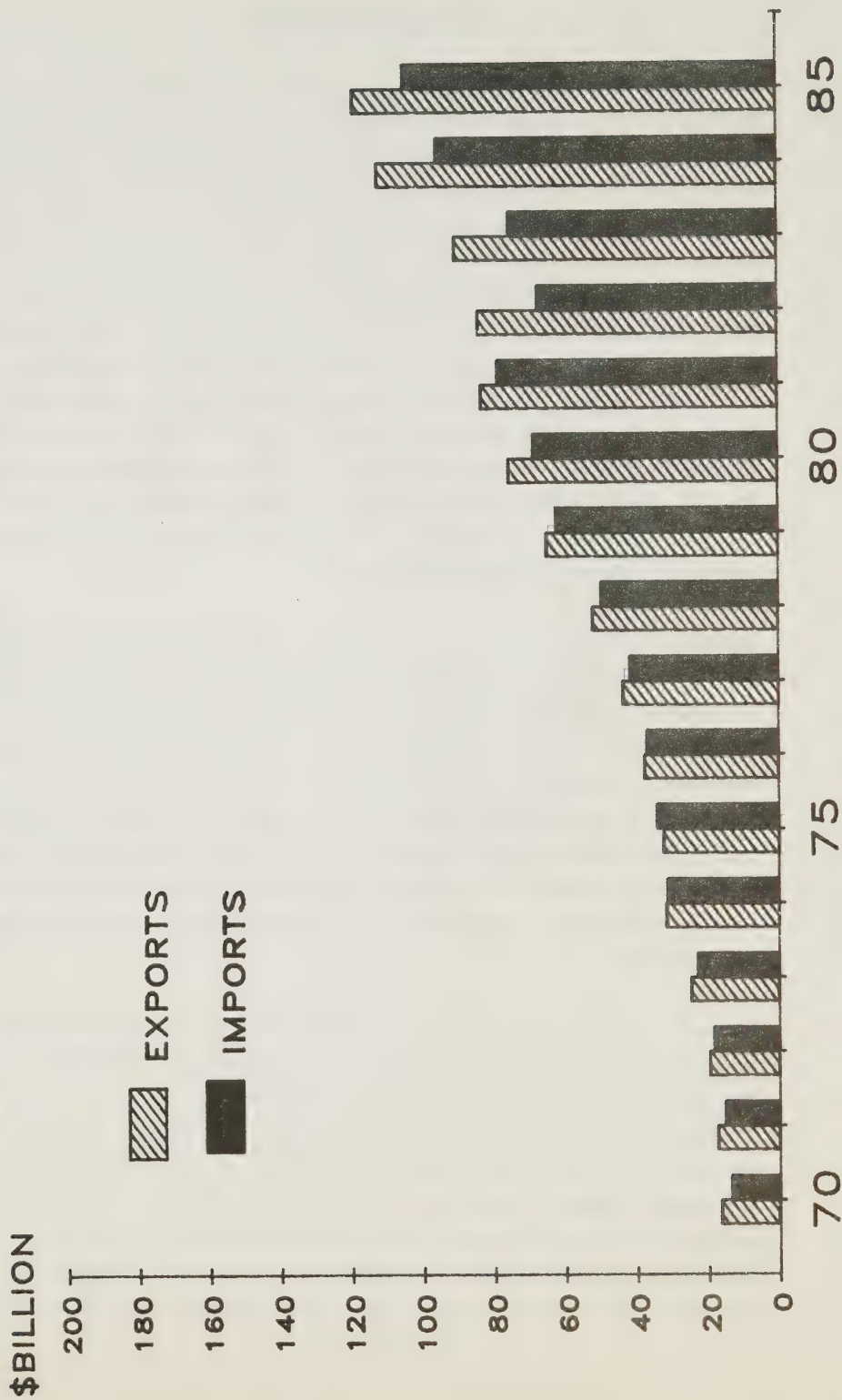
THE TRADE DEBATE

The Select Committee on Economic Affairs has been examining the implications of a bilateral free trade agreement with the United States since July 10, 1985. During the intervening period, the Committee has received written and oral submissions from numerous individuals and organizations on the possible effects of a bilateral free trade agreement for both the country and the province. The fundamental diversity in the views presented showed the Committee that no one can predict what the actual outcome of a bilateral free trade agreement would be. The outcome depends entirely upon the content of whatever agreement is ultimately negotiated between Canada and the United States. The outcome also depends upon how different regions and sectors of the economy could be affected. The Committee has not been able to determine what the outcome of such a step into the unknown could bring. For this reason, throughout the hearings that have been held, the Committee has paid particular attention to the specific concerns of individuals, businesses, unions, organizations and experts.

Debates over the makeup of Canada's trading relationships have been acrimonious and difficult throughout the country's history. The early patterns of economic development across the country reflect the changing demands for the products our country could produce. As the makeup of Canada's exports expanded and diversified, different parts of the country gained – or lost – the basis of their economic well-being. Distinct parts of the country produce and export distinctly different products. The result has been that the volatile international economy has frequently aggravated the regional disparities that exist in Canada, and aggravated the relationship among the various regions and provinces.

Economic divergence among the provinces is likely to continue for some time to come. Canada produces and exports natural resources, manufactured goods and services. Although manufacturing is centred in a small number of provinces, all provinces have some manufacturing and are concerned to expand their manufacturing base. All provinces have significant agricultural and natural resource industries. Those provinces that are dependent upon agricultural and natural resource exports are now undergoing serious economic difficulties because of weak international commodity markets. But no province has been immune from the effects of the unstable

CANADIAN TRADE, 1970-85



commodity markets of the last decade. Even within provinces, dependence on single products or commodities has resulted in significant disparities that may be difficult to alleviate.

Canada has built a large and, in some industries, internationally competitive manufacturing sector, which has placed the country among the major industrial nations. However, some industries — both in manufacturing and natural resources — rely on the existence of special protection for their products. These industries are disadvantaged by geographic, climatic and historical factors which are not easily reversed. The divisions in Canada's makeup are unlikely to be resolved by recourse to single-minded or simple solutions. The complex relationships between trade, economic and social well being, between natural resource and manufacturing industries, and between competitive needs and people's needs for productive, rewarding employment all place pressures on governments to take account of these differences.

Portions of Canada's and Ontario's economies rely upon trade within the country. Some portions have developed as a result of their trade with the United States; others as a result of trade with other parts of the world. Canada's trade policy, and especially the current round of bilateral and multilateral trade negotiations, must recognize these differences among regions. It is important to bear in mind that certain parts of Canada's economy have been relatively insulated from importing or exporting by high tariffs, by regulation or by special organizational structures. These industries may never become active international traders. Nor can they exist without some controls over their domestic market. In many instances, these industries are efficient within the confines of their activity but cannot become competitive internationally due to impediments of geography, climate or access to resources. Any attempts to solve our trade problems must deal with these industries in a sympathetic, responsive manner because they incorporate communities, people, skills and social infrastructure that cannot be ignored.

A new subject has recently entered into the debate on trade — the removal of barriers to trade in services. Eliminating non-tariff barriers to services seems to be a priority for the United States in both bilateral and multilateral negotiations. Services incorporate numerous kinds of economic activity, including transportation, financial services, education, health and

entertainment. Some of these services are not traded, such as health or education, while others cross international borders in many forms. Trade in data processing, cultural products (films, broadcasting, books, records) engineering and consulting, among numerous other services, can be as important for Canada's economic vitality as trade in commodities and manufactured products. Many difficult problems must be solved before barriers to service trade can be eliminated. Questions of consumer protection, legal accountability, cultural development, the transferability of professional qualifications, among others, must be dealt with if reducing or eliminating non-tariff barriers is to occur without causing disruption. The novelty of the issues involved simply demands that irreversible actions are not taken.

The Select Committee on Economic Affairs, in its Interim Report, was particularly concerned that this diversity of interests and needs should be considered in any bilateral trade agreement. The Committee continues to believe that a comprehensive free trade agreement, as it understands the term, would be neither achievable nor realistic. As the Committee understands the term, a comprehensive bilateral free trade agreement means that all tariff and non-tariff barriers to trade between Canada and the United States would be removed from all sectors of the economy. Both countries would have to ensure that no non-tariff barriers be put in place in future. The difficulties that arise from comprehensive bilateral free trade remain a problem that renders such an agreement untenable. However, in the time since the Interim Report, the terminology of the trade negotiations has confused the issue somewhat.

Statements made by political leaders and officials involved in the bilateral free trade negotiations have drawn a distinction between "comprehensive" and "sectoral" negotiations. The bilateral negotiations have been described as comprehensive by both sets of negotiators. That is, the negotiations have begun with all substantive questions of trade between the two countries open for discussion. However, the fact that all areas are open for discussion does not seem to mean that all subjects of discussion will somehow be incorporated into the bilateral trade agreement that ultimately results. As specific subjects come up, the negotiators (and their respective governments) could decide if there is sufficient scope for agreement on each subject. In the end, only those subjects and sectors where both sides can reconcile their

differences would be part of the bilateral trade agreement. This type of negotiation is contrasted with sectoral negotiations where specific industrial sectors are discussed, and compromise must be found in each industry and sector.

In its discussions with officials in the trade negotiators' offices in both countries, the Committee was told that there were political constraints which determined that the trade negotiations should be comprehensive. First, anything other than negotiations which at least began as comprehensive might induce special interests to lobby politicians to incorporate their concerns. This could seriously restrict the flexibility that the negotiators perceive they need in order to reach agreement. Second, a comprehensive agreement that reduces substantially all tariff and non-tariff barriers in a mutually beneficial manner would be the only kind that could pass the responsible legislative bodies. Third, the bilateral agreement would have to conform to the rules of the General Agreement on Tariffs and Trade as they pertain to special trade arrangements and free trade areas between member countries. Specifically, this means that restrictions to trade have to be eliminated "on substantially all trade between the constituent territories in products originating in such territories." (General Agreement on Tariffs and Trade, 1969, Article XXIV s. 8b.)

The Select Committee on Economic Affairs recognizes that these concerns must be addressed by the trade negotiators as they establish the framework for bilateral trade discussions. Nonetheless, the Committee wishes to reiterate its previous conclusion that a fully comprehensive agreement that results in the complete removal of all tariff and non-tariff barriers to trade from all sectors of the economy is neither achievable nor realistic.

There are two reasons that the Committee has for its conclusion. First, almost any governmental activity that affects the economy can be defined as a non-tariff barrier. This includes industrial subsidies, social programs, regional development assistance and cultural policies. Reduction of non-tariff barriers though a bilateral agreement may be beneficial. Their elimination is not desirable and is probably impossible. No government can be expected to abrogate its right to use whatever means it sees fit in order to ensure a viable economy for its people. Second, a comprehensive agreement

would treat all industries, sectors and interests in the economy in the same fashion once it was fully implemented. The Committee believes that the special circumstances of some industries do not make this an appropriate goal. Special problems and distinct institutional structures in some industries — such as agriculture, automobiles, brewing and communications — require that these be accounted for in any trade liberalization program.

Therefore, the Committee feels that a distinction must be drawn between bilateral negotiations which are "comprehensive" in the sense of discussing all subjects and an agreement which is "comprehensive" in the sense of treating all industries uniformly when implemented. All subjects are being discussed. But not all subjects should be included in a trade liberalization agreement. The Select Committee on Economic Affairs feels that a comprehensive free trade agreement between Canada and the United States that does not make provision for the distinct features of our economy and our society is not a desirable goal for any trade negotiations. Any agreement which can weaken our cultural, social and economic programs is also not a desirable goal.

Given this reservation, there is considerable scope for expanding trade between our two countries by reducing or eliminating barriers that hinder trade. A trade agreement that is as broadly based as possible can be beneficial for both sides. The specific differences among industries and regions in Canada must be acknowledged and adequately treated in any trade agreement. The alternative may aggravate disparities, and lead to severe economic and social problems.

Furthermore, the Committee does not believe that any trade agreement between Canada and the United States that incorporates these considerations would violate the terms of GATT. Section 10 of Article XXIV of the GATT permits an alternative means of establishing a free trade area if two conditions are met. First, a two-thirds majority of GATT signatories must approve. Second, the proposed agreement must lead to a free trade area in the sense of Article XXIV by lowering barriers to trade between the participants and not raising barriers to the trade of the other GATT signatories. Meeting these two conditions should be sufficient to obtain an exemption from the restrictive terms of Article XXIV when a proposed agreement does not fully comply with the requirements of the article.

It is worth noting that when the Tokyo Round of the GATT is fully implemented at the beginning of 1987, eighty percent of Canadian exports to the United States will be tariff free and sixty-five percent of imports from there will be tariff free. The average tariff on industrial imports will be between nine and ten percent, and the overall average tariff in Canada will be between four and five percent. However, some products such as textiles, clothing and footwear will have tariffs above twenty percent. In addition, both the European Community and the European Free-Trade Association were put in place and continue to operate without formal GATT approval. Both of these facts provide some assurance that compliance with Canada's GATT obligations should not be a severe constraint on the content of a bilateral trade agreement. The primary constraint upon the negotiations is, then, the requirement that the agreement satisfy the concerns of the people, the legislatures and the governments of the two countries that their legitimate interests are assured. The agreement must secure existing trade and provide the opportunities for expanding trade in a mutually beneficial manner.

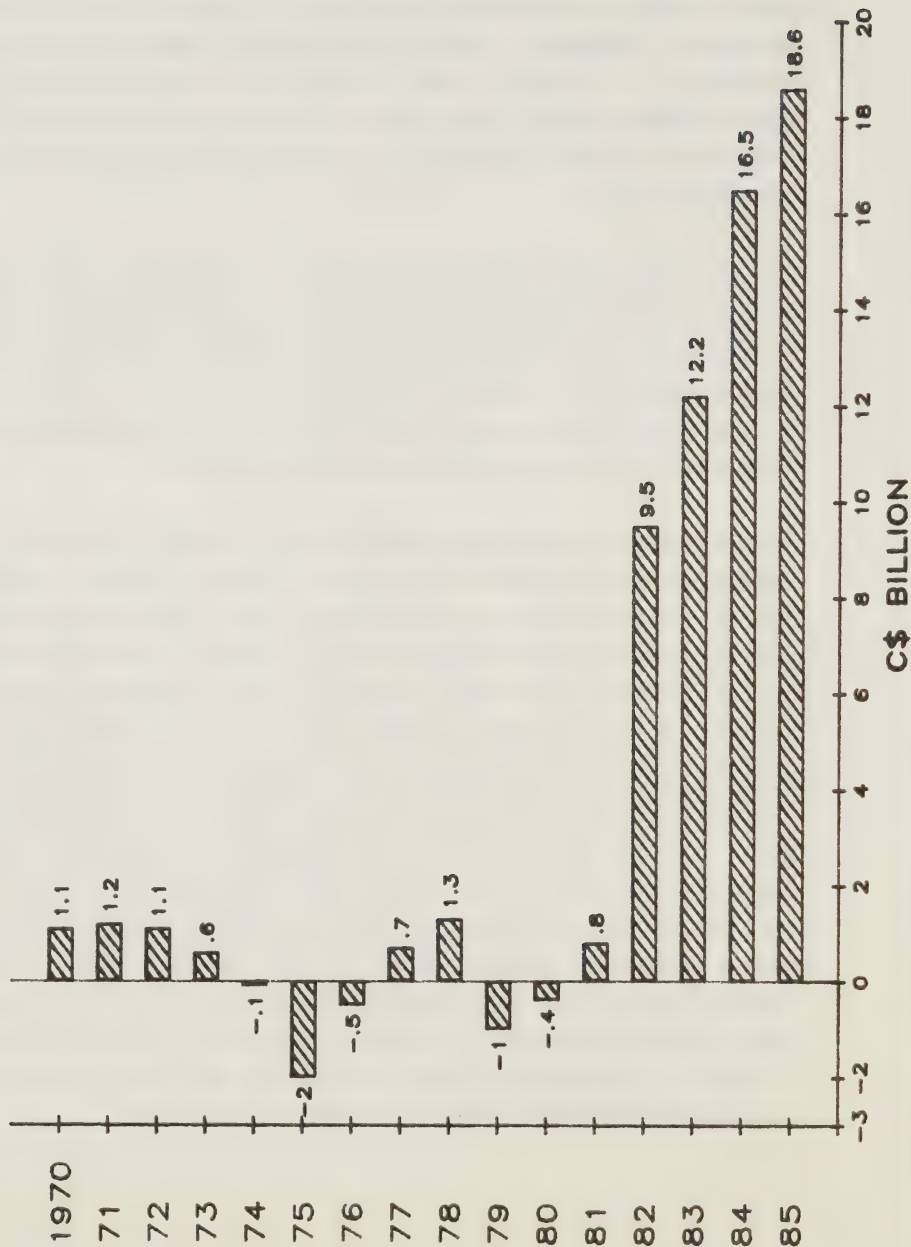
CANADA'S TRADE RELATIONSHIPS

Multilateral and bilateral trade negotiations are fundamentally interrelated. It is very likely that the results of either set of negotiations will influence the subject matter and results of the other. Problems that cannot be solved multilaterally may become more important during the bilateral negotiations in hopes that they are amenable to resolution in a smaller forum with only two participants. Whatever results from bilateral negotiations will be a component of Canada's wider, multilateral trade relations. This interrelationship between the two sets of negotiations forms the basis for the conclusions and recommendations of the Select Committee on Economic Affairs that follow.

The last fifteen years of volatility in the international economy have firmly demonstrated that the health of Canada's economy depends upon international conditions. Two interrelated components of international conditions establish the groundwork for our economic well-being. The state of the world economy is fundamental; activity in the United States, which is the strongest economy in the world, often has immediate implications for Canada.

The most severe international recession since the Great Depression in the 1930s ended largely because of the growth of the U.S. economy. Canada was able to expand its exports to the United States, especially its automotive exports, which brought our country out of the recession. As Canada recovered from the recession, the country became increasingly dependent upon the U.S. economy. But an economic recovery that hinges on the well-being of our nearest neighbour is extremely fragile. Improvements in our trade with the United States coincided with a deterioration in our trade with the rest of the world. This has been attributed to the changes in the relative exchange rates. However, since the beginning of 1986, the value of the U.S. currency has begun to decline relative to the major international currencies while holding somewhat steady relative to the Canadian dollar. Canadian competitiveness is improving because of the declines in our dollar relative to other, non-U.S. currencies. It remains an open question whether Canada will be capable of rebuilding the trade relationships with other countries which have been put under such stress due to currency fluctuations.

CANADIAN TRADE BALANCE WITH THE U.S.A.

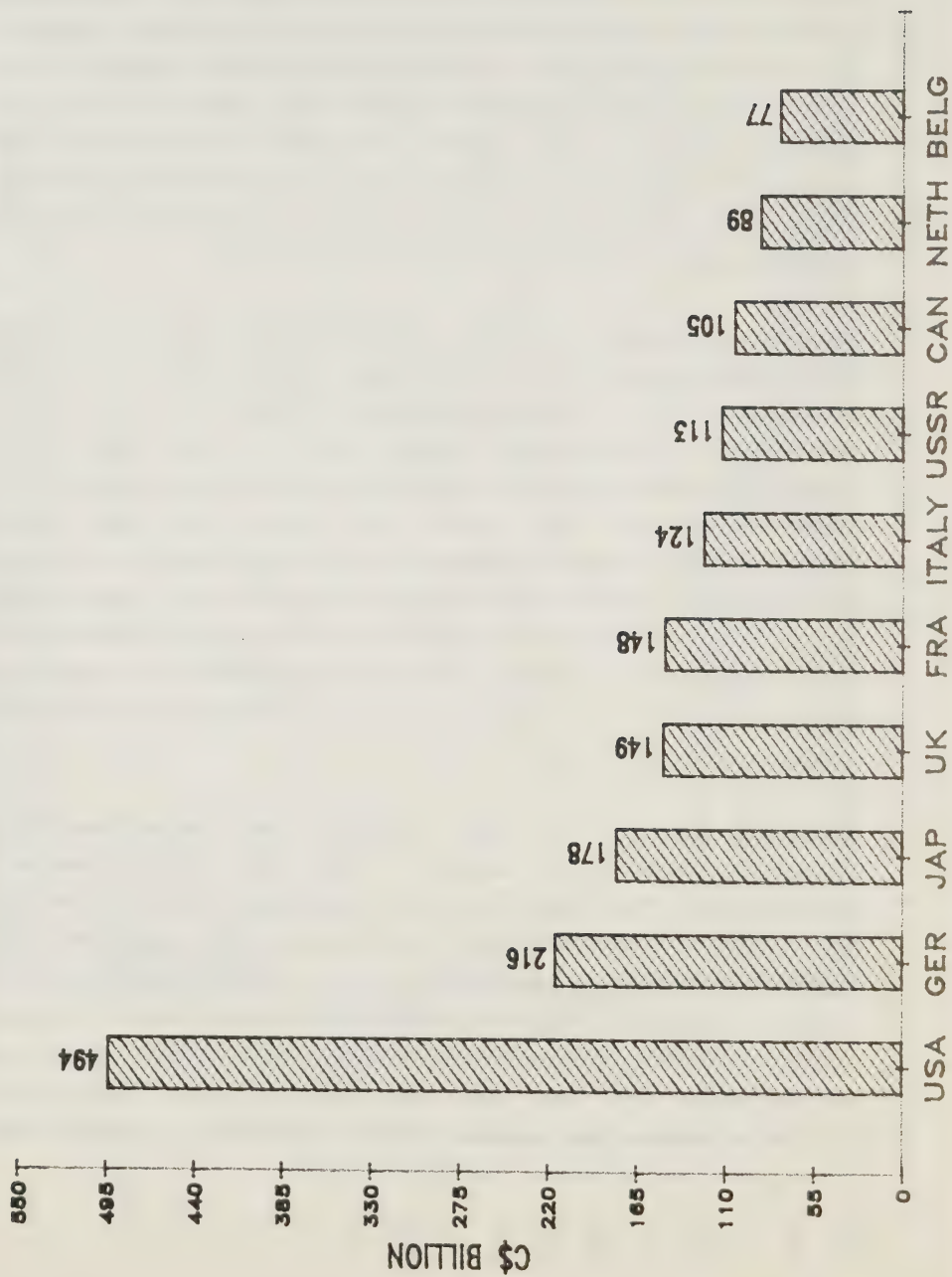


Recent declines in the value of the U.S. currency relative to other major currencies were precipitated by arrangements among the governments of the five largest economic powers. The U.S. dollar was overvalued, largely as a result of a vast inflow of foreign currency into that country. High real interest rates in the United States and world instability probably brought about the high value of the U.S. dollar. Changing conditions — especially the significant U.S. trade deficit that resulted from the overvalued currency — led to the subsequent decline. It is clear that concerted government action was involved to begin the decline but market forces probably will determine the result. These events are significant for Canada because currency values are one of the prime determinants of Canada's international competitiveness. They are not, however, the only factor. A concerted effort by Canadians to build trade opportunities internationally is also important.

The General Agreement on Tariffs and Trade (GATT) has been the principal institutional framework for the international trading system since GATT's inception in 1947. It is far from being the best system there can be. Three institutions, the International Monetary Fund, the World Bank and an international trade organization, were to be set up to restore stability to the world economy after World War II. Only the first two were actually implemented. The General Agreement on Tariffs and Trade was a patchwork designed to substitute for an institution that was never set up. Despite the ad hoc nature of what has evolved, GATT has served its purpose reasonably well. Rather than being an institution with broad responsibility for international trade matters, GATT has become the primary mechanism that nations have used to reduce tariff barriers to trade.

Successive rounds of GATT tariff reductions have been accompanied by dramatic increases in the volume of world trade and by prosperity internationally. The Tokyo Round tariff reductions, which are the most recent agreed to under GATT, started in 1980 and will be completed by the beginning of 1987. Their success is illustrated by the fact that, in conjunction with the Automotive Products Agreement (the Autopact) and the Defence Production Sharing Agreement, trade between Canada and the United States will be largely tariff free. Some high tariffs will remain above twenty percent on products like textiles, clothing and footwear. Canada's overall average tariff will be between four and five percent.

MAJOR WORLD IMPORTERS, 1985



The history of GATT is closely related to bilateral trade relations between Canada and the United States. Two bilateral agreements, in 1935 and 1938, the latter occurring at the same time as a bilateral agreement between the United States and the United Kingdom, liberalized trade after the extreme protectionism of the Great Depression. These bilateral arrangements became the impetus for U.S. efforts at setting up an international trading system after the war which led to the establishment of GATT. Since then, GATT has been the principal trade agreement between Canada and the United States.

Any additional tariff reductions are going to be difficult to achieve. Most tariffs will be very low in any case. There is considerable diversity of interest among the developed, developing and underdeveloped countries that participate in GATT. New, sophisticated means of protecting domestic industries from international competition through non-tariff barriers to trade have been put in place. However, events of the last decade have shown how completely interdependent the world economy is. Canada has lessened its trade outside of North America. Unless Canada is to become solely a North American trading nation, strenuous efforts must be made internationally. Initiatives will be required if protectionism internationally is to be prevented. The consequences of failure are severe.

Using the GATT as the forum to forestall protectionism is not only for Canada's benefit. Many of the trade irritants that have recently developed between Canada and the United States are tied into the high trade deficit that country has with the rest of the world. A vast amount of trade crosses our mutual border. Only a small number of irritants have resulted. Concern for fair trade internationally, and the feeling that countries trading into the United States are being unfair traders, has been the spur to U.S. protectionist sentiments. Canada may be able to reiterate – and to show – that we are a fair trading partner. But it is unlikely that this alone will reduce the protectionist sentiment there. Actions to improve the worldwide trading system are more likely to have success.

The Committee believes that diversifying Canada's and Ontario's trade relations has tremendous importance. Canada cannot depend only upon the vagaries of international money markets for determining whether Canadian goods will be internationally competitive. Any potential for expanding our trade with other countries exists only if Canada and Ontario work seriously to enhance our trade with our traditional trading partners in order to reverse the reduction in trade that has occurred. We must intensify our efforts to establish firm trade relations with the newly industrialized countries (NICs) that are entering the world marketplace. The GATT system of trade negotiations is difficult and often intractable. Success cannot be assured. But GATT has shown itself to be a fruitful forum for dealing with complex trade issues in the past despite its cumbersome procedures. The Committee believes that the greatest opportunities for diversifying Canada's trade lies with this established, proven mechanism. There is every reason to expect that trade negotiations between Canada and the United States, and multilateral negotiations under GATT will be compatible. Both sets of negotiations will augment one another. The next round of multilateral trade negotiations under GATT will likely determine the makeup of world trading relations during the next decade. They have, therefore, a special importance that must be recognized.

Recommendations

Your Select Committee on Economic Affairs recommends that:

1. The Governments of Canada and Ontario should engage in efforts to strengthen the multilateral system of trade. The Government of Ontario should also encourage the Government of Canada to reduce the impediments to trade internationally through the General Agreement on Tariffs and Trade.
2. The Government of Ontario should suggest to the Government of Canada that it regard the upcoming talks on the General Agreement on Tariffs and Trade as the primary vehicle for opening up and enhancing Canada's international trading opportunities.

Perhaps one of the most prevalent concerns about the value of the GATT system is the difficulty in obtaining a resolution to trade disputes among its members. Disputes arise frequently. When they cannot be solved by direct discussions between the parties concerned, the dispute can be arbitrated through mechanisms set out in the various GATT agreements. The procedures are unwieldy and lengthy. A third, independent party can be asked to arbitrate. However, the parties to the dispute decide whether they will implement the decision of the arbitrator. How any dispute is finally settled is therefore a matter of the goodwill that exists between the parties. Unfortunately, disputes are frequently not settled and fester on for years.

These difficulties would not be critical – since they have persisted for some time – except for the rising sentiments of protectionism which threaten the effectiveness of GATT. Protectionism has been fueled by the sense that GATT is not available to deal with unfair trading practices and, therefore, countries must provide some assurance to their own industries that they will not suffer from actions by other countries. This is particularly the case in the United States where declining exports are perceived to be the result of closed markets elsewhere. The United States is not alone in their concern. As tariffs have declined, other institutional means are being used to restrict trade. Many of these means are the legitimate response of countries to economic difficulties. Others are simply protectionism. A strengthened GATT code on these matters would clarify the issues in a fashion that would be equitable for all the countries involved.

Recommendation

Your Select Committee on Economic Affairs recommends that:

3. The Government of Ontario should encourage the Government of Canada in its efforts to strengthen the role of the General Agreement on Tariffs and Trade particularly in the arbitration and expeditious settlement of trade disputes by improving the efficiency of its operations and the enforcement of its decisions.

The problems posed by an inadequate system of dispute settlement in the GATT are closely connected to what is probably the most serious current international trade disagreement. A virtual trade war exists in agriculture. The U.S. Food Security Act of 1985 enacted on December 23, 1985 is the immediate cause of the competition by countries to subsidize lower farm commodity prices. As a result of it, numerous countries are providing additional subsidies either to their farmers, in order to lower the product prices, or to consumer countries, in order to encourage sales.

The Act is a response, by the U.S. Congress and Government, to what they perceive to be the unfair subsidization of agricultural products by certain countries, especially by the European Community. Price support and export subsidy programs in the Act will cost the U.S. government between \$15 and \$20 billion (U.S.) in each of the next three years. All the provisions in the Act will cost over \$70 billion (U.S.) by 1989, making it one of the most costly acts the United States has ever passed. Results are apparent already. Increased competition has cost Canada some of its markets abroad. Prices are lower for commodities whose effective price is set in the United States, for example, for corn, soybeans and wheat.

Some critics of the U.S. agricultural policy countered that it may not help farmers export more because there is unlikely to be much growth in the market for agricultural products. Middle income developing countries may increase their production. Increases in U.S. wheat sales would probably be at the expense of Canada and Argentina as competitors are forced to follow U.S. prices down. However effective the U.S. Food Security Act actually is in achieving the goals of agricultural interests, it has intensified the problems of Canadian farmers and those in many other countries. Its purpose was to bring about multilateral negotiations on agriculture. The Committee hopes that that result can be achieved before there is serious damage to the farm community.

Recommendation

Your Select Committee on Economic Affairs recommends that:

4. The Government of Ontario should encourage the Government of Canada to use the proposed new round of negotiations under the General Agreement on Tariffs and Trade as a way of preventing further damaging consequences to world agricultural trade. These negotiations should give priority to establishing a set of international rules to balance the conflicting needs of the agricultural industries in both developed and developing nations.

Another concern of the Committee with regard to the GATT negotiations is that the dynamics of the world economy have rapidly changed the abilities of some countries to compete in Canada. As countries develop their economies, they become more capable of participating in the international marketplace on a more equal footing. The GATT provides for the special treatment of products from underdeveloped countries. Poor countries need opportunities to build social and economic infrastructures and exporting is one way of obtaining the funds they require. Developed countries, such as Canada, must be prepared to extend exemptions from the trade restrictions that they normally impose on imports from other developed countries. The special differential treatment provisions in the GATT offer precisely this chance for less developed countries (LDCs). Difficulties arise, however, when a less developed country expands its exports at the expense of domestic production or at the expense of other developed countries which are encumbered by tariff restrictions. A balance must be established that satisfies both interests.

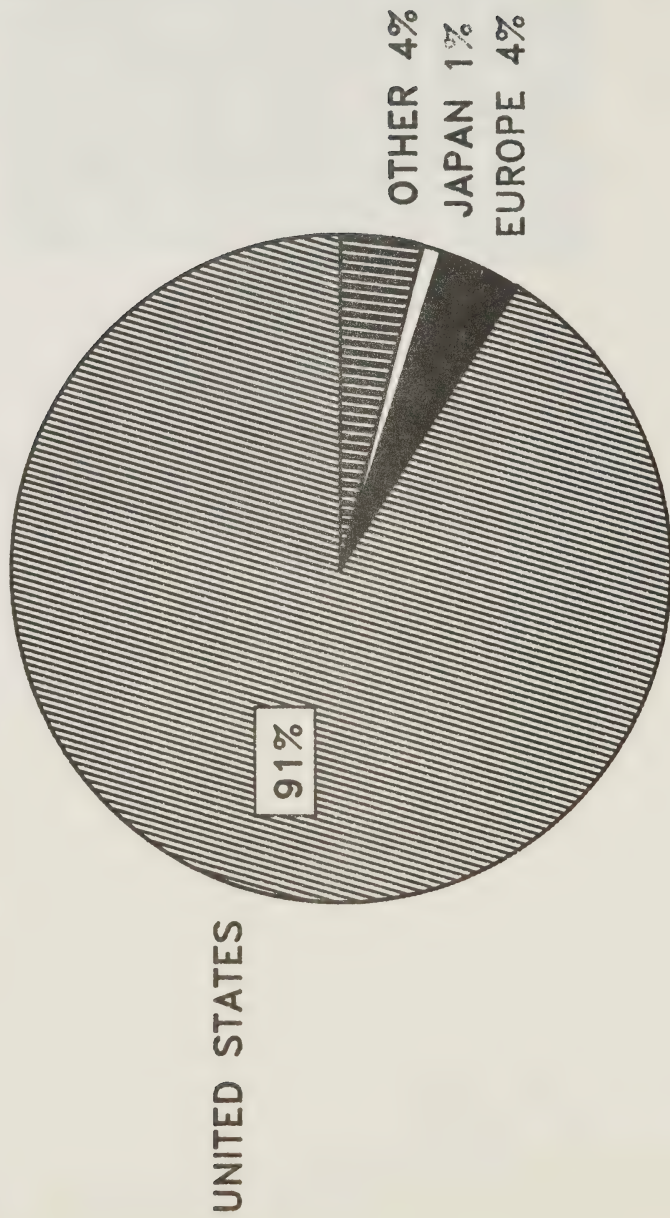
Canada's commitment to the terms of GATT, especially the special differential treatment provisions, has aggravated our trade relations with several of our trading partners. The Committee feels that there must be fair and equitable treatment for all countries who export to Canada if Canada is to obtain equivalent access to their domestic markets. A less developed country should not be penalized when it builds its industrial capabilities sufficiently to be a competitor in Canada or internationally. Once it is able to compete, however, it should be prepared to do so on the same terms as developed countries.

Recommendation

Your Select Committee on Economic Affairs recommends that:

5. The Government of Ontario should encourage the Government of Canada to try to incorporate a distinction into the General Agreement on Tariffs and Trade on the eligibility of countries for the special differential treatment provisions. Less developed countries (LDCs) should continue to receive special differential treatment for their products. A new process should be established for newly industrialized countries (NICs) which will allow for the phasing-out of this special differential treatment as countries become internationally competitive.

ONTARIO EXPORT MARKETS, 1985



Trade negotiations under the GATT are not an end in themselves. Their purpose is to build a stable international system so countries can produce goods and services which they can trade among one another. More efficient economies and greater income for people are the results. If Canada is to participate fully in the international market and benefit from that participation, it must expand its trade relations more effectively. The Committee believes that the narrowing of Canada's and Ontario's trade relations in the first half of the 1980s must be reversed. Paying particular attention to the multilateral negotiation process is only one part of this effort. Governments and businesses need to seek out export markets in other countries.

Canada has been successful in expanding its trade with its major market in the United States. Success should not lead to a narrowing of interests. Dependence on the U.S. market is inevitable and irreversible. Our relations are among the best in the world. However, reliance on only one market may leave Canada's economy vulnerable. There is no assurance that, as the U.S. economy undergoes changes, Canada will remain as well suited to provide products and services as it now is. In addition, only by trading with a variety of countries can Canada build the flexibility in skills and production that is essential in an unstable world.

Recommendation

Your Select Committee on Economic Affairs recommends that:

6. The Government of Ontario should make greater efforts to expand and diversify our trading relationships with other countries.

The Committee has heard numerous witnesses who argued eloquently that the first priority for improving our economic well-being and our capabilities for trade should be to solve the problems that Canadians have in trading within our own country. Through the legitimate exercise of their responsibilities, provincial governments have set up regulations which restrict the flow of goods, services and labour across the country. Numerous justifications for these actions exist. Governments want to ensure that some particular industry is viable so they establish regulations to prevent the sales of a similar product from another province. Restrictions on beer sales are the best example. Other regulations prevent the movement of certain kinds of labour, such as the rules on the transferability of professional qualifications among the provinces. Provincial governments often restrict their purchases of goods and services to local suppliers or provide significant preferences to local suppliers. Rules for consumer protection may also restrict flows of goods and services.

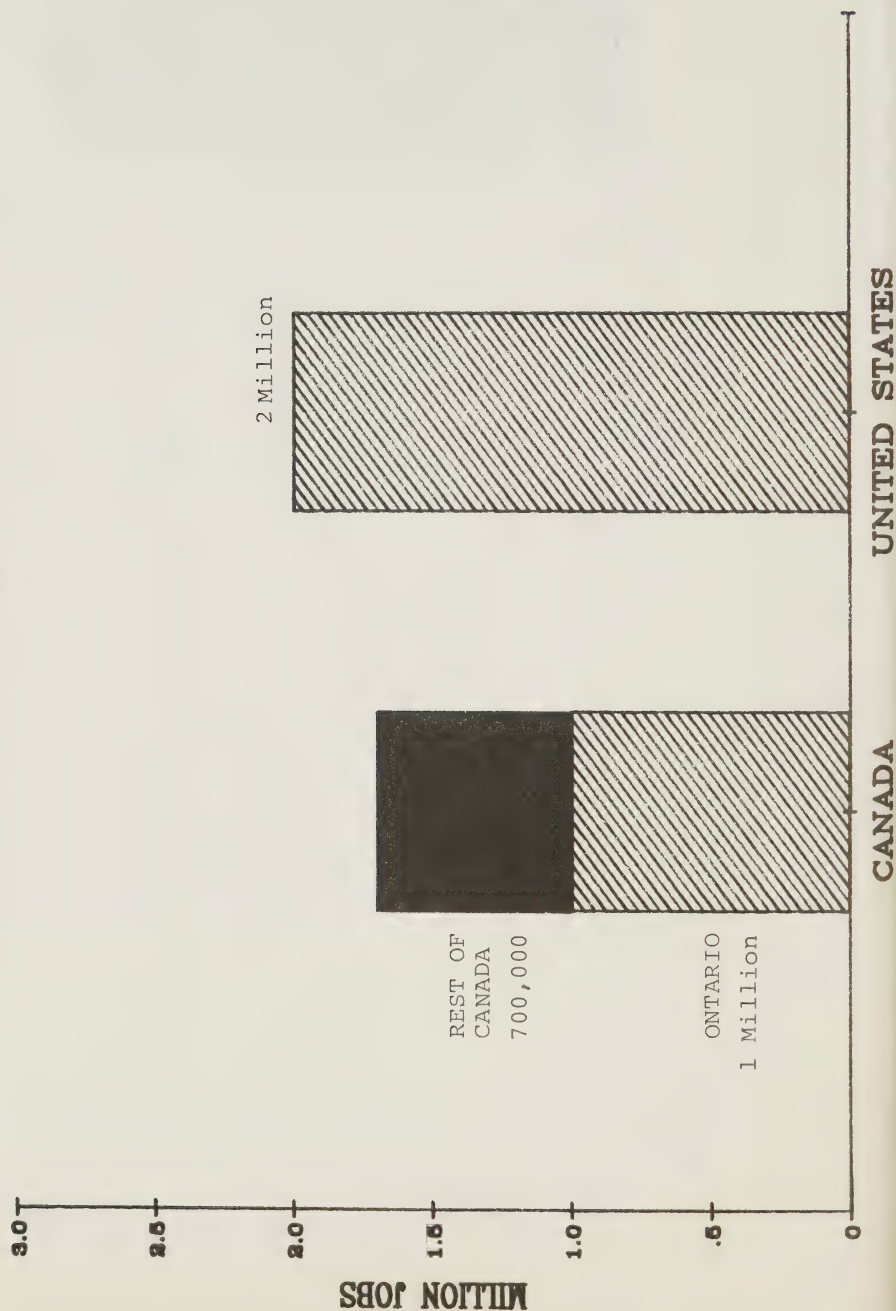
The Committee believes that it is necessary to recognize that regulations which may impede trade often have other goals that are important for the provinces concerned. Particular difficulties arise because Canada is engaged in efforts to lessen barriers to trade internationally. Two issues must be addressed before further reduction in trade barriers is implemented. First, the purpose of these trade initiatives is to obtain the benefits that expanded trade can provide. These benefits include developing more internationally competitive industries by providing access to larger markets. Maintaining unnecessary restrictions to domestic trade will only prevent Canadian companies from building up the resources that international competition demands. Second, if Canada reduces its tariff and non-tariff barriers to international trade through these negotiations, the result could be that foreign companies would have greater access to Canadian markets than Canadians have to markets in other provinces.

Recommendation

Your Select Committee on Economic Affairs recommends that:

7. Interprovincial barriers to trade should be reduced regardless of any international trade agreements. The initiatives for the reduction of interprovincial barriers, recently signed by provincial trade ministers in Belleville, Ontario, is a positive first step in this direction. The province of Ontario should continue to show leadership in this regard.

EMPLOYMENT GENERATED BY CANADA/U.S. TRADE



CANADA-UNITED STATES TRADE RELATIONS

The bilateral free trade negotiations between Canada and the United States that have begun are part of a long history of close relations. Occasional problems have arisen to strain these relations but, considering the length of our border and the magnitude of interrelationship, these have been infrequent. Trade issues may be the explicit subject of these negotiations. Trade establishes the health of both economies and is, thus, intimately involved in political, social and cultural institutions. A relationship that ensures a friendly and open environment is necessary in order to have stable, secure and expanding trade. Industries, communities and regions depend upon these close trade relations. This is as true in the United States as it is in Canada. Canada relies more heavily on its trade with the United States; at the same time many parts of the United States are dependent upon Canadian trade.

The mutual dependence that exists between our two nations is unique. It cuts across regions, provinces and states. Recent protectionist sentiment in the United States may jeopardize some parts of our trade with them. Wherever governments take actions to restrict trade flows, it is likely that the economies on both sides of the border would be harmed. Similarly, anything that governments do to ease the political tensions that spring up and to improve the climate for trade is likely to improve the performance of both economies. For this reason, the Committee believes that efforts must be made to respond to concerns expressed in the United States over the fairness of Canada's trading relations.

Recommendations

Your Select Committee on Economic Affairs recommends that:

8. Given that the Government of Canada and the Government of the United States are engaged in trade negotiations, the goal of these negotiations should be to reduce or eliminate barriers to trade between our two countries in a mutually beneficial manner.
9. Any discussions should be a forum for reinforcing the good trade relationship that has historically existed between Canada and the United States, and for clarifying the fact that Canada has consistently been a fair trader in the United States market.

There are two principal goals of the bilateral trade negotiations. The first is to remove the few tariff barriers that still exist between the two countries and to try to remove as many non-tariff barriers as possible. The second has two components: to secure access to each other's market by obtaining exemption from potential protectionist actions and by establishing some framework for dealing with the harassment which may result from various contingency protection actions. The Committee is particularly concerned that the atmosphere of the trade negotiations be one of neighbours seeking to improve their relationship in a mutually beneficial manner. Unfortunately, recent events have the potential to sour the negotiations. A number of contingency protection actions are currently underway in the United States. There is the potential for more. Some contingency protection actions against U.S. products are also possible in Canada.

Because these actions can damage the cordiality that is a prerequisite to any negotiations, some efforts should be made by both governments to prevent them from becoming serious. The Committee recognizes that governments alone are not responsible for using the legislative means and the quasi-judicial tribunals in place which can restrict trade. Individuals, companies and industry groups have the right to initiate these contingency protection actions. Governments can endeavour to prevent these actions from being used as harassment.

Recommendation

Your Select Committee on Economic Affairs recommends that:

10. The Government of Canada and the Government of the United States should mutually agree to discourage contingency protection actions until the trade negotiations are completed.

Given the immense amount of trade which crosses the border, there are surprisingly few disputes. On the occasions when trade disputes do become serious, few actually result in precipitous actions that harm our trade or our relationship. The Committee believes that this is a testament to the basic fairness of both countries in trade matters. They are fair traders and the system of dispute resolution is not arbitrary. Issues do arise, however, which cause some acrimony.

The two countries have many similarities but they also have some fundamental differences. Government involvement in the economy is a fundamental part of Canadian history from the building of our railroads to the development of advanced technologies. U.S. government activity in its economy has taken forms that reflect the distinct history of that country. The trade irritants that do result are often the product of a misunderstanding on how the other country operates. A clear illustration of this is the frequent statements made in the United States that some particular program in Canada, be it a social, cultural or regional development program, is an unfair subsidy to trade. Unfortunately these statements can turn into initiatives under the contingency protection provisions of U.S. trade legislation.

The Committee does not wish to dispute the rights of the U.S. Congress to ensure viable industries and a strong economy. Contingency protection is one way of doing so in the face of dynamic international markets. However, there is an unnecessary threat and provocation when contingency protection actions are brought against trade on the basis of Canadian programs or policies that have legitimate social, cultural or economic goals.

As the process operates in the United States, contingency protection actions against Canada can be easily initiated. There is ample opportunity for Canadian companies and the government to defend themselves by presenting their case. Despite this, the rules under the U.S. trade laws do not permit the body which makes the ultimate ruling to consider the purposes or makeup of the Canadian program. What is at issue in these procedures is the effect upon the relevant U.S. industry and whether some form of subsidization or dumping is taking place. Both are legitimate concerns. What may be ignored is the

question of whether conditions in Canada are sufficiently different that a subsidy may have a purpose – legitimate even under U.S. laws – that is not intended to provide a trade subsidy. It may be intended to compensate for some particular disadvantage due to geography, climate or institutional makeup resulting from Canada's limited population. Furthermore, the U.S. procedures fail to weigh whether U.S. producers of a similar product are also subsidized in their domestic market. Canada and the United States may both subsidize a product or industry but in different fashions.

The Committee strongly believes that these bilateral trade negotiations must come to grips with this problem so neither country is disadvantaged. It is, in fact, fundamental to the success of the negotiations. If Canadian companies cannot build markets in the United States without fear that some contingency protection actions will be brought against them when they are successful, then the elimination of trade barriers will be without effect. Any agreement must do more than simply arrive at a common understanding of terminology, it must do more than define what are acceptable and unacceptable subsidies. These are important to avoid misunderstanding and to improve the predictability for government and for business. They are only a starting point because the problems are those of substantial differences in approach and not simply differences in understanding. Each country subsidizes industry. The tools and programs that each uses are quite different. The intended results are different.

A solution that has been put forward frequently is the establishment of an international dispute resolution tribunal. This tribunal should supersede the contingency protection laws on both sides of the border in arbitrating bilateral trade disputes if it is to be effective. The particular advantage to such a tribunal is the fact that it could examine information from both countries, determine the facts at issue and provide conclusions or recommendations in a manner agreed upon by both parties, Canada and the United States. The Committee believes that it is important that this tribunal be removed from any possibility of undue pressure to affect its conclusion, that the tribunal be removed from the political process while it arbitrates the dispute. One cannot use this tribunal to force either government to abide by results the governments are not prepared to accept. But it should be possible to set up some process whereby it is to the advantage of both governments to accept

the conclusions and recommendations. The tribunal should play a role in enhancing public information on bilateral trade issues and undertake studies on important subjects of trade. Governments will not and cannot surrender their ultimate decisionmaking powers. They can agree to limit their discretion in implementing tribunal recommendations to matters of fundamental importance.

Recommendations

Your Select Committee on Economic Affairs recommends that:

11. A bilateral trade dispute resolution tribunal should be set up to arbitrate trade disputes expeditiously as they arise between Canada and the United States and to enhance public information on bilateral trade issues. This tribunal should be established regardless of the outcome of any trade enhancement negotiations.
12. The tribunal that is agreed upon by both countries should provide sufficient scope and prospect for eliminating any bias or influence that could be caused by the disparities between the participants.
13. This tribunal should be composed of balanced representation and should consider all information pertinent to the trade dispute. The tribunal should be empowered to determine the facts in the dispute and to provide the Government of Canada and the Government of the United States with their conclusions and decisions in a timely manner. These decisions should be binding on both governments to the fullest possible extent.
14. In the cases of disputes over subsidies, the tribunal shall consider the balance of government benefits for an industry on both sides of the border in its determination of the facts.

The successful conclusion of these bilateral trade negotiations is of interest to many in Canada and the United States. Numerous witnesses before the Select Committee on Economic Affairs expressed serious reservations about these negotiations. At the heart of many of these reservations was the question of whether Canada would lose its rights and powers as a sovereign, independent country as a result of a bilateral free trade agreement. Any treaty or agreement between countries that sets some limits on their behaviour is a restriction on their sovereign rights. A bilateral trade agreement in principle need not be any more limiting than any other international agreement, any more limiting than a multilateral trade agreement for example. In the case of a bilateral free trade agreement between Canada and the United States, the issue is not so simple. Canada is a large country with a small population. Its nearest neighbour is the wealthiest, most powerful country in the world. Trade between the two is important to both but disproportionately important to Canada. Finally, in spite of the numerous similarities, there are basic differences in heritage, societies, cultures, economies and governments.

The intention of the bilateral free trade negotiations is to reach an agreement that will permit both countries to expand their mutual trade in order to gain income and improve the operation of their economies. The intention is also to secure this trade from arbitrary action. As the economies become more interdependent, it may become difficult for Canada to make decisions or implement policies that do not conform with policies in the United States. This may be part of the price of the growing interdependence of the world. There is no need for this interdependence to limit Canada's sovereignty in those areas that are fundamental to the rights and requirements of the Canadian people. A similarity of interests between Canada and the United States does not have to result in the homogenization of our two countries. With sufficient scope for independent action and independent policies, there is no reason that a bilateral trade agreement would harm Canada's rights. The difficulty is in establishing the proper basis for achieving the goals of such an agreement while ensuring that each country can continue to do things in the manner most appropriate for it.

Recommendation

Your Select Committee on Economic Affairs recommends that:

15. Any discussions and possible agreements on trade between Canada and the United States should provide assurances that Canada's position as a sovereign, independent state will not be impinged upon.

While the Committee is of the opinion that a bilateral trade agreement, in itself, need not reduce Canada's sovereign rights, there are some areas of particular concern. Canada has extensive programs and policies in place to meet the needs of Canadians. These programs and policies may not be unique. They have evolved through the course of one hundred and nineteen years of our history as an independent country. Federal and provincial governments regularly change these policies and programs in order to pursue goals important to their citizens. With due care, a bilateral trade agreement can assist in achieving these goals. The difficulty presented is one that will require particular attentiveness.

As mentioned previously, trade disputes have arisen over differences in social, cultural or economic programs and policies. Canada's medicare system and its unemployment insurance system have been attacked as providing unfair subsidies to Canadian industries. Many of our cultural programs have been criticized as being a form of protectionism disguised as cultural programs. Regional development programs have been attacked as trade subsidies. In most cases, Canadians have been able to defend themselves in any contingency protection actions on these matters in the United States. The Committee is concerned that this may not always be the result. A bilateral dispute resolution tribunal must be able to deal with most of these problems, but it can only do so if these problems are clarified before the tribunal is established. By their nature, tribunals can only solve the issues they are explicitly empowered to deal with.

Unfortunately, this is not the only manner in which social, cultural, regional or linguistic policies and programs could be affected. Among the goals that U.S. negotiators have in achieving a bilateral free trade agreement is the establishment of rules on regional subsidies; solving some disputes stemming from Canada's policies in broadcasting, publishing and intellectual property rights; and reaching some agreement on trade in services. None of these goals are a direct attack on Canada's right to have distinct social, cultural or regional policies or programs. They are efforts to deal with what might be considered trade disputes about strictly commercial problems. For Canada, however, social, cultural, regional and linguistic policy has often taken the form of policies and programs that determine the economic viability of particular industries. This is the case with fishing, broadcasting, publishing,

telecommunications, regional incentive grants and support for specific industries located in depressed regions.

The purpose of these policies and programs is often not to provide export subsidies. Social policy in Canada commonly provides universal or particular assistance to cover recognized needs. Our medicare system operates to ensure everyone has adequate health care. Unemployment insurance is available for those who meet the requirements. Neither has been set up to subsidize industry. Cultural policy has recognized that for a country to build a distinct cultural identity it is necessary to be able to communicate with one another. Government programs support both the creators of culture and those who communicate it. Regional development programs have the goal of alleviating some of the disparities that characterize our country. They recognize there is a value in preserving communities. None of these policies and programs can be separated from economic institutions. It would not be possible to achieve any of these goals without also supporting individuals, businesses and industries. Therefore, the Committee believes that the bilateral trade negotiations cannot surrender or restrict Canada's rights to provide policies and programs in these areas in the manner that we deem most appropriate.

Recommendation

Your Select Committee on Economic Affairs recommends that:

16. It is imperative that the Canadian Government guarantee that we do not compromise our social, cultural, regional and linguistic heritage in any trade discussions with the United States. Any possible trade agreement should specifically protect Canada's continuing right to ensure economic support and incentives for its culture. Furthermore, any agreement should specifically recognize that federal and provincial programs designed to alleviate social, economic or regional disparities are a legitimate exercise of governmental responsibility. Therefore, these policies and programs should not be subject to arbitrary action through the contingency protection laws in the United States.

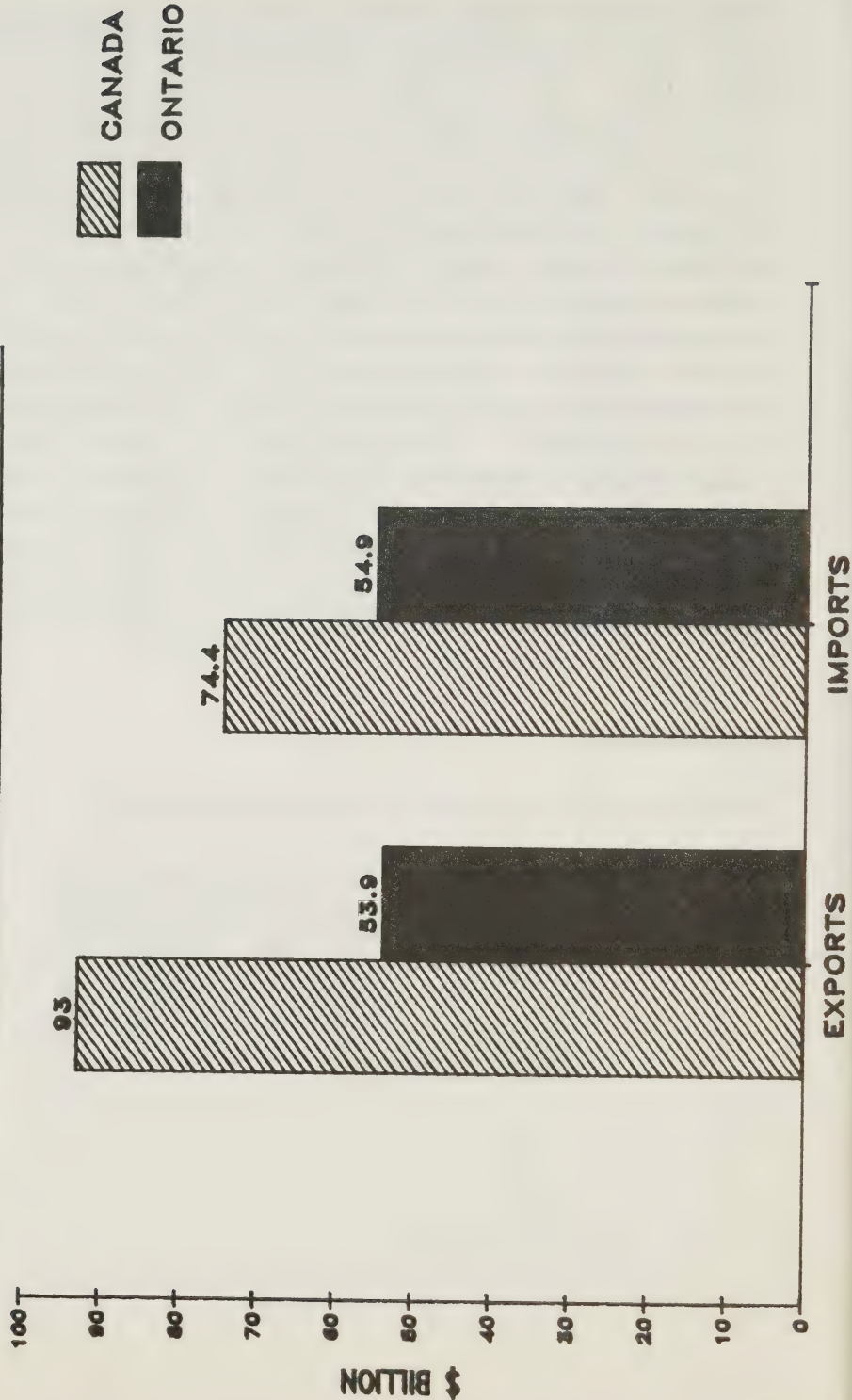
Canada has adopted numerous different approaches to foreign investment during its history. Sometimes capital from other countries has been welcomed without reserve. At other times, we have set up restrictions which determined where and how foreign capital would be of greatest benefit to our economy. Our fractious debates show that Canadians are largely undecided on what would be best. Most recently, the Foreign Investment Review Act has been replaced by the Investment Canada Act which eased the review process for foreign investment. Review of investment in cultural industries was made mandatory. Canada's foreign investment policies have drawn frequent criticism from U.S. governments and they may be one subject discussed during the trade negotiations. The Committee believes that some of the concerns expressed by critics should be considered in drawing up our foreign investment policies. Nonetheless, it is also important that Canada's rights and responsibilities as a sovereign nation to determine what sorts of investment are acceptable should be recognized. Canadians are unlikely to ever settle upon a single policy regarding foreign investment that will stand unchanged. The bilateral trade agreement should recognize our continuing ability to make decisions in these matters while providing some clarification and assurances that rules are applied objectively.

Recommendation

Your Select Committee on Economic Affairs recommends that:

17. The Government of Canada should ensure that any bilateral trade agreement recognize Canada's rights and responsibilities as a sovereign country to establish the rules and conditions for investment in this country. The Government of Ontario should suggest to the Government of Canada that the rules and conditions for investment be clarified so they are known and objectively applied.

TRADE WITH THE UNITED STATES, 1985



There is a special need for close provincial involvement with the federal government in these trade negotiations, especially in the bilateral negotiations with the United States. The broad nature of these negotiations, covering as they do all tariff and non-tariff barriers, with the intention – frequently stated by the United States – of including the service industries, means that areas of both federal and provincial jurisdiction are being discussed. Unlike the situation in the United States where the federal government can bind state governments in international agreements, the situation in Canada is undefined. Considerable precedent exists that the provinces are supreme in areas of their sole jurisdiction, just as the Canadian government is supreme in areas of its jurisdiction. Knowledgeable witnesses have argued both that provinces cannot be bound by federal agreements in trade matters and that provinces are subject to such agreements.

Provinces have interests in the results of the bilateral negotiations that go beyond the pure jurisdictional question. Provincial governments want to ensure that their citizens have the best opportunities for building strong, viable economies. Their interests extend to wanting to secure and develop markets in the United States for their products, as well as to maintain the industries that serve domestic markets. Clearly, not every industry nor every region will be affected in the same way by bilateral free trade. Some will benefit and some will have difficulties. If the balance is not on the benefits, there is little point to an agreement. Even a successful agreement will cause some problems. The best assurance that the provincial governments can have that the interests of their people have been represented is if they are closely involved in the process. Any agreement that disproportionately benefits one region at the expense of others will not be acceptable. In order to provide the mutual benefit that a bilateral trade agreement must, the Canadian government and the provinces must cooperate.

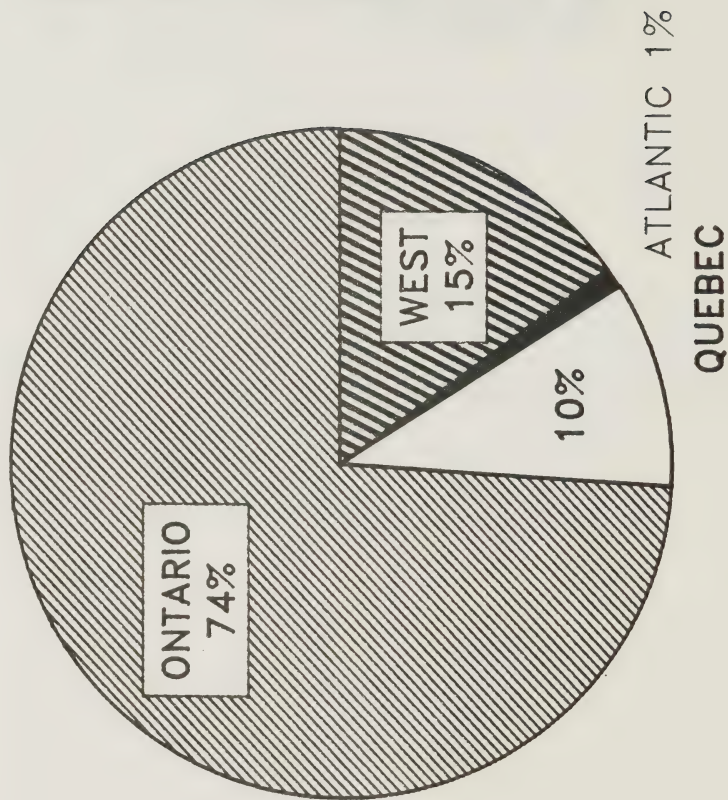
The Committee is of the opinion that this cooperation must extend even to the bilateral dispute resolution tribunal which it hopes will result from the negotiations. A tribunal would be dealing with problems of provincial concern and would have some authority to solve bilateral trade disputes. Therefore, a provincial role in the dispute resolution process is important if the tribunal is to actually perform its function of solving these disputes.

Recommendation

Your Select Committee on Economic Affairs recommends that:

18. All of the provincial governments of Canada should have full and complete consultation and participation in any bilateral trade negotiations, and play a meaningful role in any dispute resolution mechanism.

UNITED STATES EXPORTS TO CANADA, 1985



The problem of jurisdiction is particularly sensitive for the provinces. The Committee does not wish to suggest that provincial governments can restrict the Canadian government in those areas of sole federal jurisdiction. Witnesses who have discussed the issue have made it clear that the federal authority is paramount in international relations. What is not clear is the extent to which this paramountcy can bind provincial governments in areas of sole provincial jurisdiction. There are two opposing viewpoints.

The argument for provincial authority in matters of provincial jurisdiction is based on section 92 of the Constitution Act. The claim is that a strong constitutional argument exists that a free trade agreement could not impose legal obligations on the provinces nor constrain their existing jurisdiction under this section. The ratification of treaties is a prerogative of the Canadian Governor-in-Council. But this prerogative power does not extend to the implementation of treaties. The power of implementation lies with both the federal and provincial governments in areas of their respective jurisdictions. When trade issues deal with non-tariff barriers, covering such things as purchasing policies, subsidies, regulations and taxing resources, then the subjects of provincial jurisdiction are matters of international negotiation. If a bilateral free trade agreement is to have any effect – and if it is to be successfully negotiated – then provincial involvement is necessary in order to bind the provinces in their jurisdiction. An agreement that binds only the federal government would not be acceptable to the United States.

The opposing argument is that both the making and ratification of treaties is the prerogative power of the executive. Where implementation requires legislation, the matter would be determined by either the ordinary division of powers or a special treaty implementation power of Parliament. Although all appeal rulings have been that there is no special treaty implementation power, the Supreme Court could look at the fact that some piece of legislation was designed to implement a treaty and was, therefore, a federal matter. Difficulties are compounded by the question of whether the legislation deals with trade in goods and commodities, or in capital and services. Federal jurisdiction over the former is clearer than over the latter. Section 15 of the Charter of Rights supports the federal jurisdiction to remove barriers to the licencing of professions. It is possible that the general power of the federal

government to control the economy as a whole will be used to sustain its power more broadly. This leads to the conclusion that the legal tools are in place to build a strong federal initiative on non-tariff barriers and to get it implemented in legislation.

The Select Committee on Economic Affairs is not capable of determining which argument would be sustained by the Supreme Court. It has been argued further, by a knowledgeable witness, that there would be a constitutional challenge on a bilateral free trade agreement simply because only a court decision would assure the United States that the provinces are bound by the terms of an agreement.

In fact, provincial commitment without Court backing may be insufficient since a Supreme Court challenge could originate from any source. The Committee feels that any bilateral trade agreement should not be permitted to precipitate a constitutional crisis. Only the full and complete involvement of all the provincial governments in the negotiations and in the ratification of an agreement could prevent it. The provinces have the right and the duty to safeguard their jurisdiction and to legislate in their jurisdiction. Bilateral trade negotiations should not become an opportunity to encroach upon their powers.

Recommendations

Your Select Committee on Economic Affairs recommends that:

19. Any agreement that arises from these bilateral trade negotiations should only be approved with the substantial agreement of the provinces of Canada in matters of provincial concern.
20. A clear process for the ratification of a bilateral trade agreement should be established so as to avoid the possibility of constitutional difficulties by ensuring full and open discussion, and national and provincial consensus, on the terms of any bilateral trade agreement.

Witnesses representing the agricultural sector felt that the U.S. Food Security Act of 1985 was causing serious harm to farm income in this country. The Act sets U.S. agricultural policy until the end of the decade for most farm commodities except horticultural crops and livestock, although dairy is included. Among its objectives are to increase U.S. agricultural exports; to reduce surpluses and productive capacity; to free up access to world markets and combat agricultural subsidies; and to isolate U.S. producers from the ill effects of world market conditions. Unfortunately, the results for Ontario farmers are serious. Prices are lower for commodities whose price is largely set in the United States. An increasingly competitive buyers' market has ensued which is dominated by subsidies. Farmers' cash flows are being reduced so that government income stabilization programs are becoming a significant portion of farm income. Land prices will probably decline. Chemical, fertilizer and farm machinery producers will be affected by the lower farm income.

Recommendation

Your Select Committee on Economic Affairs recommends that:

21. Although the U.S. Food Security Act was not directly aimed at Canadian agricultural trade, it has had serious, harmful effects on our agricultural sector. The Governments of Canada and Ontario should register their strong protests over the results of the Act with the United States Government.

The possibility of a bilateral free trade agreement which includes agriculture has been viewed with alarm. Agricultural tariffs are not a great issue for the agricultural industry. There are few of them and they are often designed to be in effect during peak seasons. Completely free trade without any subsidies would have the result that those with the greatest advantage would be those with the best growing conditions; the worse the growing conditions the greater the disadvantage. Canadian farmers have developed a strong agricultural sector but the disadvantages of geography have added significant costs. In addition, Canadians have set up specific market arrangements to keep farm income up while providing agricultural products to consumers at reasonable prices. Milk, eggs and poultry products are produced under quota with prices set administratively in the province. Disruption of these marketing boards and arrangements would result in serious harm. Viable, diversified agricultural production and processing sectors are not possible without major supporting national policies.

Canada is not alone in its special provisions for agriculture. The U.S. Food Security Act is one example of policies in the United States designed to maintain farm income and preserve the economic viability of agriculture. Trade is restrained in numerous ways. For these reasons, the Committee is of the opinion that solving the questions of agricultural trade in these bilateral free trade negotiations is an intractable problem. There are too many diverse interests to accommodate and too many difficult problems to solve.

Recommendation

Your Select Committee on Economic Affairs recommends that:

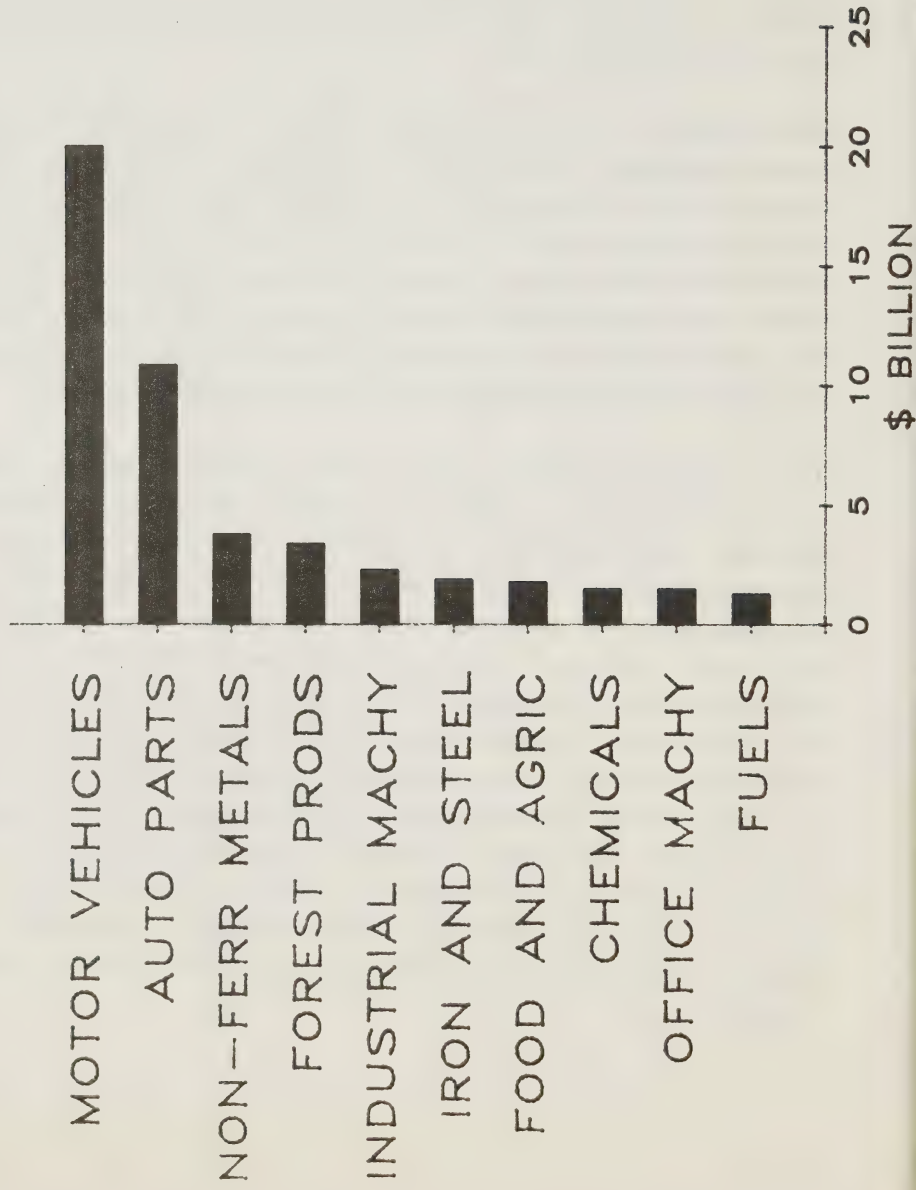
22. While the agricultural sector is under discussion in the bilateral trade negotiations, this Committee does not believe that these negotiations will solve the difficulties that exist in the bilateral trade of agricultural products. Because of the particular problems and sensitivities of the country's and the province's agricultural sectors, Ontario should not enter into any agreement that harms its agricultural programs.

Although the General Agreement on Tariffs and Trade is the principal agreement governing trade between Canada and the United States, there are two others which have had particular success. The Automotive Products Agreement (the Autopact) and the Defence Production Sharing Arrangement have been in effect for some time. They both have features which are incompatible with a bilateral free trade arrangement because they provide for safeguards to ensure that a defined portion of production in automotive vehicles and defence related manufacturing occur in Canada. In effect, they provide for tariff-free trade in these products in return for managing the rules of the trade relationship.

Representatives from the automobile industry – the domestic vehicle assembly companies, the automotive parts producers and the labour union – expressed serious concerns that bilateral free trade negotiations might jeopardize existing trade arrangements. They fear that the United States administration would ask that the Autopact be renegotiated as a condition for holding more extensive trade discussions. Inclusion of the automobile industry in a bilateral free trade arrangement in a manner that leaves the safeguard provisions ineffective would have serious consequences for the industry.

These safeguards guarantee that at least as much automotive vehicle production take place in Canada as the domestic, North American producers sell here. These guarantees have permitted the automobile industry to become a significant exporter to the United States in a rationalized North American automotive production system. The Autopact does not guarantee that Canada will have a surplus in automotive vehicle trade. A large, persistent deficit exists in automotive parts trade. For many years during the life of the Autopact, Canada had a deficit in automotive trade. In fact, over the entire period since it was implemented in 1965, automotive vehicle trade is almost precisely in balance between the two countries. The advantage to Canada is that the Autopact provides a means of maintaining a viable automotive industry. The advantage for the United States is that it has permitted U.S.-owned automobile assembly companies to rationalize their production and maintain profitability in a tariff-free North American automobile market.

LEADING ONTARIO EXPORTS, 1985



The terms of the Autopact are complex. It is not one arrangement that establishes the rules for automobile production in both countries. In the United States, it is a bilateral agreement that permits duty-free access for automobiles and their component parts when imported from Canada by a domestic automobile assembly company. In Canada, the Autopact is an arrangement available to all automobile producers. These producers can import tariff-free so long as Canadian production of a particular class of vehicle – automobiles, buses or commercial vehicles – exceeds Canadian imports of that class of vehicle in the year and do not fall below seventy-five percent at any time in the year. The Canadian value added must equal or exceed the Canadian value added the manufacturer produced in the year ending July 31, 1964. In addition, the North American automobile producers have exchanged letters of understanding with the Canadian government where they undertake to ensure that the Canadian value added in their production will be at least sixty percent of their cost of sales. The implications are that the elimination of the established tariffs on automobiles – which the producers avoid by meeting the terms of the Autopact – would remove any incentive for meeting those terms. An across-the-board elimination of tariffs, in fact, prejudices the Autopact even if it were not explicitly included in a bilateral free trade agreement. Explicit exclusion is necessary.

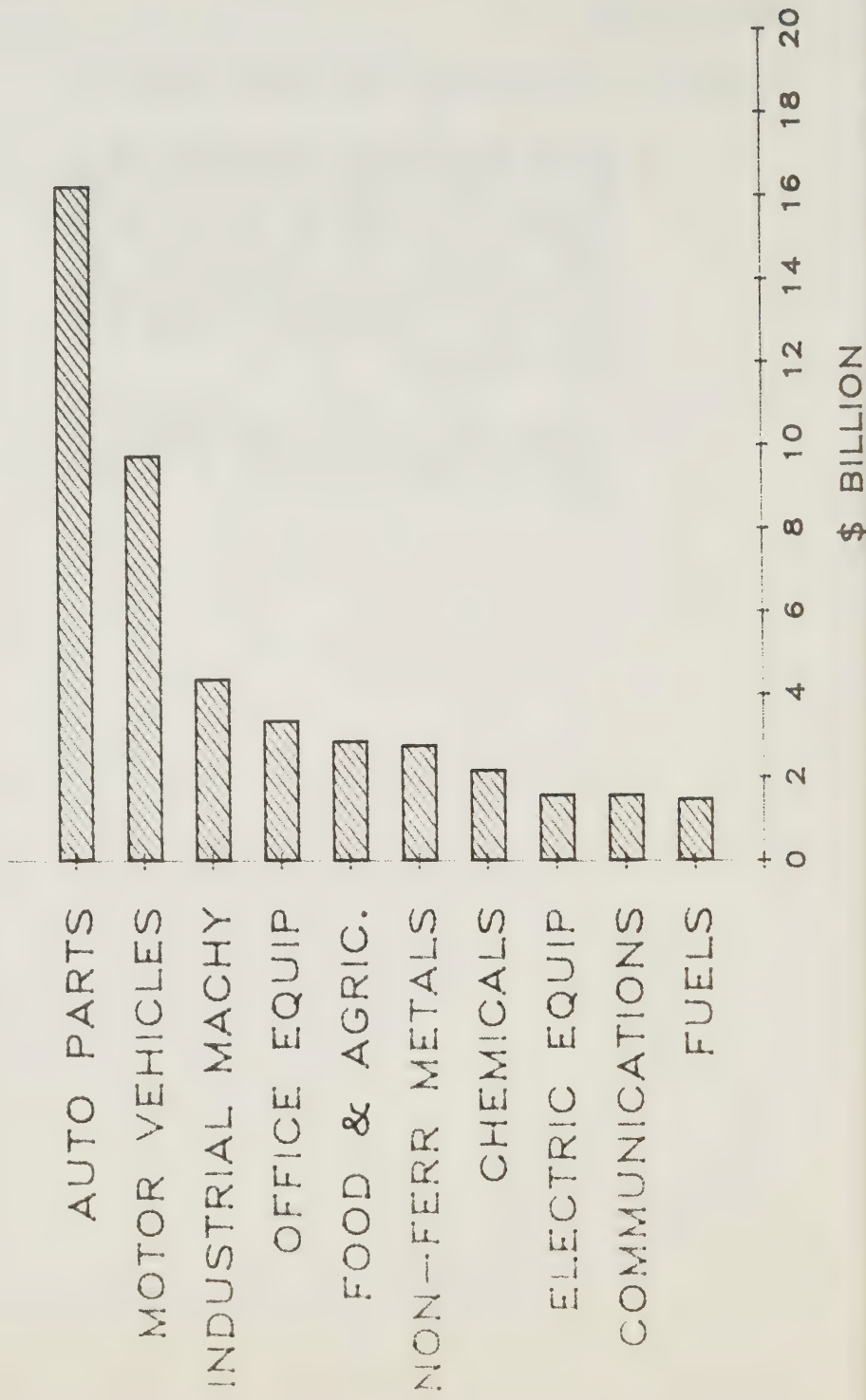
The Defence Production Sharing Arrangement is not a single agreement but is a collection of memoranda of understanding between Canada and the United States stretching over a number of years. Duty-free access to the United States is provided for Canadian produced defence material. It establishes an exemption from the Buy America Act for these defence related goods. Softwear, construction materials and services such as repairs are specifically excluded from the exemption. In addition, certain U.S. defence appropriations legislation does not permit the foreign purchase of particular items for defence purposes, including textiles and ships. Although this Arrangement has safeguard provisions, Canada has a long-term deficit of between \$1.5 to \$2 billion in defence trade from 1959 to the present. There have been periods when Canada had a surplus. Swings occur as a result of large material purchases by either side.

Recommendations

Your Select Committee on Economic Affairs recommends that:

23. Existing trade arrangements previously agreed to between Canada and the United States – such as the Automotive Products Agreement (the Autopact) and the Defence Production Sharing Agreement – should not be prejudiced by any future bilateral trade arrangements. The Autopact should not be prejudiced in any fashion as a result of the reduction or elimination of tariffs and non-tariff barriers in general or in ancillary industries.
24. A trade agreement such as the Autopact, which embodies safeguards and requires companies to provide Canadian value added, is a model agreement that should be pursued.

LEADING ONTARIO IMPORTS, 1985



Simply ensuring that the Autopact is not prejudiced by a bilateral free trade agreement is not enough to ensure that it is viable in future. The automobile industry is undergoing considerable stress. Both foreign and domestic assembly companies are investing heavily in Canada and in the United States. It is estimated that these foreign and domestic assembly companies will have excess North American production of approximately 3.4 million automobiles a year by 1990. Excess production will result in plant closings because, once production in an assembly plant declines below a critical point, a shift or an entire plant will be shut down at once. The continued viability of the Autopact is vital if Canada is to ensure that it maintains a share of North American automobile production.

Foreign automobile assembly companies have been building assembly operations in Canada and the United States for several years. They wish continued access to the most profitable automobile market, consequently they are building plants here to provide that access should protectionist pressures increase. These operations compete directly with the domestic automobile companies. The Committee is of the opinion that this competition is healthy because the North American companies must, as a result, develop new designs and products, and produce more efficiently. At the same time, there is a negative side to these developments. Foreign assembly companies are setting up plants that incorporate little Canadian value added. They employ relatively few people in their assembly plants. A significant portion of their component parts are imported. As the shakedown in the industry occurs as a result of excess North American production, it is likely that some domestic assembly companies will be forced to close operations. If these closings are replaced by the assembly operations of foreign producers, Canada will be a net loser. The important issue is whether these foreign producers will begin to use more Canadian value added by incorporating Canadian parts. It does not appear that they intend to do so in the near future.

The Committee has another concern as well. Foreign assembly operations in Canada have been set up under special agreements between the companies and the Canadian government. South Korean automobile imports are exempt from tariff because they benefit from the general preferential tariff available to underdeveloped countries under the GATT. Japanese and European producers face higher tariffs. This different treatment is a trade irritant because

Japanese producers have voluntarily restrained their exports to Canada in order to allow the North American industry to adjust. In addition, Canada has a duty remission program in place to encourage offshore producers to purchase Canadian automobile components and parts. A feature of this remission program is designed to encourage investment by these companies. But these programs are viewed by the U.S. automobile industry and by U.S. politicians as a special subsidy to the foreign producers. It is a trade irritant which could bring the entire Autopact into jeopardy without providing real benefits to Canada. By giving exemptions to the terms of the Autopact, which are not onerous and which have proven to be successful, Canada is only encouraging the North American assembly companies to seek exemption as well. North American producers now exceed the Canadian value added levels. When they eliminate capacity, it could very well be Canadian capacity that is shut down. A weakened Autopact will make the outcome more serious.

Recommendations

Your Select Committee on Economic Affairs recommends that:

25. The Government of Ontario should encourage the Government of Canada to bring all automobile imports from whatever origin under legislative and regulatory systems with common rules for all participants. Those systems should have the same rules and safeguards as the Autopact between Canada and the United States. These safeguards include any memoranda of understanding that may exist between the Government of Canada and the domestic automobile companies which delineate the amount of production which must occur in Canada in order to be eligible for tariff free access to the Canadian market.
26. Companies not presently part of the Autopact should be permitted a defined period of time in which to comply with its terms. Compliance with the Autopact should supersede any other existing automobile agreements between the Government of Canada and automobile companies not presently a part of the Autopact.

One of the difficulties in the entire debate over bilateral free trade is that the terminology being used is rarely defined. Just as "comprehensive" and "free trade" have a number of meanings, so too does the term "National Treatment." It is an objective of both sides in the bilateral trade negotiations. Yet both countries use the term to encompass differing things. Both countries seem to want unencumbered access to the other market for their goods and services. They want equal treatment under the laws in each country. The implications of this are far-reaching. It goes considerably beyond gaining exemption from "Buy America" or "Buy Canadian" or "Buy Provincial" rules which regulate government procurement.

National treatment also means that the investment from the country receiving such treatment is considered in the same way as domestic investment. People who provide a service across the border would have to be treated as if they lived here (although immigration laws would remain in force). In themselves these goals are unobjectionable. Removing the restrictions on the trade of goods and services can be beneficial. Enhancing Canadian access to the U.S. market in return for reciprocal access to our market can increase the income of both countries. However, across-the-board national treatment presents some serious problems that must be addressed.

Witnesses before the Committee raised some of these problems. Across-the-board national treatment would probably mean that Canadian governments could not maintain existing programs or establish new ones which are aimed at developing a particular domestic industry. Small business programs, regional development programs, the film industry development programs, in fact, any program that distinguishes between Canadians and non-Canadians in its eligibility requirements would have to be changed. In many cases, the goals of the programs could no longer be accomplished. Furthermore, consumer protection could be encroached upon because certain aspects of consumer legislation require domestic residence if they are to be effective. In Ontario, these include the travel agent compensation fund, collection agency registration rules, certain rules of the Liquor Control Board, and provincial consumer protection laws which cannot be applied beyond the province's boundaries. Criminal laws can only be applied across borders for extraditable offences but countervention of consumer protection laws are generally not extraditable offences.

Recommendations

Your Select Committee on Economic Affairs recommends that:

27. Insofar as a bilateral trade agreement incorporates the concept of reciprocal "National Treatment" of goods, services and companies from the other country, this "National Treatment" should not interfere with the continuing rights of the Federal and Provincial governments to legislate and regulate economic activity for the protection and common benefit of Canadians.
28. The Government of Canada should seek to reduce the restrictions on the interprovincial and international trade in the services sector in accordance with a possible agreement between Canada and the United States. The reduction of legislative and regulatory restrictions should occur in an orderly and reciprocal manner so as to ensure the continued protection of the consumers of the province and the continued employment of the people of Ontario.

The Government of Ontario has a continuing role in efforts to resolve trade disputes, just as it has a particular role to play in the negotiation and ratification of any bilateral trade agreement. Dealing with trade disputes as they arise involves the concerted efforts of the Canadian Government, the provinces, industries and labour. In the past, joint efforts were required to inform United States legislators of Canadian concerns. The Committee has been struck by the fact that many of those in the U.S. government who are knowledgeable about Canada are often unaware of the interdependence of our two economies. Canada's representatives in Washington, D.C., have a tremendous ability to present our country's interests in a forceful manner. They are all conscientious and extremely capable people. Rather, the problem stems from the amount of interdependence itself, which makes unexpected demands for awareness of the implications of events, from the scope of our trade, and from the size and structure of the United States Government. No one part of the government there has so much decisionmaking authority that other parts need not be considered. Numerous people are involved in the policymaking and arbitration process.

It is important for the province's economic well-being for the Ontario Government to promote the province's exports more effectively. It is equally important for the Ontario Government to assist exporters to present their interests more effectively to the United States Government and its legislators. Ontario has trade representatives in six United States cities but not in that nation's capital. Furthermore, Ontario has an officially designated Ontario House in London and in Paris. There has been official Ontario representation in London since before Confederation and an Ontario House was opened there in 1945. This was appropriate given the fact that the United Kingdom was Ontario's principal trading partner; it continues to be appropriate due to the continuing economic, social and cultural ties that exist. Since Ontario's trading patterns have shifted in the twentieth century to a North American focus, the Committee believes that this fact should be recognized by including Washington, D.C., in the province's trade representation to the United States. Whether this is best achieved by adding another office to Ontario's current level of representation or by moving an existing office is a matter for the Government to decide.

Communication with U.S. legislators on both a state and a federal level would help to relay the province's concerns about trade more effectively. The Committee believes that regular channels should be established which will permit Ontario legislators to discuss trade issues with the relevant U.S. legislators. If the relationship between our two countries is to become more cordial as it becomes closer, the importance of understanding one another will grow. Frequent contact may help to avoid some of the trade disputes that seem to arise from a misunderstanding of how the other country operates.

Recommendations

Your Select Committee on Economic Affairs recommends that:

29. The Government of Ontario should establish an Ontario House in Washington, D.C. in order to assist Ontario business and other groups — in cooperation with the Government of Canada — in developing a greater means of enhancing its trading relationship and communicating their trade concerns with the United States.
30. Appropriate committees of the Ontario Legislature should meet regularly with American legislators to discuss areas of mutual economic concern.

THE ADJUSTMENT PROCESS

Economies are continually changing. Developing consumer demand, technological sophistication, new products, fluctuating commodity prices, monetary policies and exchange rates all have their effect. The past fifteen years have been preoccupied with the results of a dynamic, often erratic international economy. Governments at all levels have been concerned to ease this process so as to alleviate some of the disruptions to people, industries and communities.

Adjustment problems associated with trade have received particular attention from Canadian governments. The most notable examples of trade adjustment assistance programs have been the Adjustment Assistance Board, which was set up to alleviate the adverse effects of the Autopact in 1965, and the Textiles and Clothing Board, which has been operating since 1970 to restructure these industries. Federal and provincial governments operate numerous programs that subsidize training and retraining, mobility, and lost wages due to industrial disruptions. The Ontario Government has recently enriched its skills development programs in order to assist workers adapt to technological change. All of these programs and policies were designed to deal with the adjustment required by relatively discrete events occurring in a defined region or industry (except for the various technology development programs which try to assist change brought about by an ongoing process).

Adjustment to a bilateral trade agreement will be more difficult, more extensive and more costly than any adjustment we have attempted. Numerous witnesses before the Committee indicated that their industry would have severe problems in adapting to a bilateral free trade environment. Some said they would suffer substantial losses in revenue, production and employment as a result. If Canada is to engage in such a disruptive undertaking in the hopes that the outcome will be a wealthier, stronger economy, then some provisions must be made for those people, industries and communities that will suffer losses. Trade adjustment assistance is expensive but it cannot be done without. Inadequate attention to the way in which a bilateral trade agreement would affect those unable to adapt easily will only cause problems for our society and our economy. Because the Canadian Government has undertaken this initiative, it must be prepared to accept the responsibility for ensuring that the detrimental effects are minimized if Canadians are to be

able to take advantage of the opportunities. The Committee wishes to emphasize that the adjustment process will involve the efforts of all levels of government, business, labour and numerous other groups in our country. The transition will not be effective, Canada will lose out, if the problems are left for others to solve.

Recommendations

Your Select Committee on Economic Affairs recommends that:

31. Governments, business, labour and other organizations should initiate programs to allow for the employment, training, geographic relocation and social needs of people affected by any trade arrangements.
32. Because a possible bilateral trade agreement could entail significant social and economic costs to business, individuals and communities as the economy adjusts to a more competitive environment, the Government of Canada should finance any additional burden on the Canadian people and on provincial governments that might arise from such a bilateral trade agreement.
33. The Government of Canada should assess the implications of a bilateral agreement upon the budgetary deficit.

The magnitude of the adjustment that will be required cannot occur quickly. Governments will require time to determine the most appropriate way of limiting any dislocation that would result. Industries require time to make investments, adapt facilities, develop markets and become innovative if they are to be competitive in a tariff free, expanded market. Those industries that cannot compete with their current products must have the opportunity to find the market niches that will keep them profitable. When companies cannot adapt, their employees must be relocated, retrained and assisted in finding alternative employment. Witnesses before the Committee have indicated that these changes would take years. If the transition is to be successful, it must be gradual.

Recommendation

Your Select Committee on Economic Affairs recommends that:

34. A bilateral trade agreement should have an appropriate phasing-in period where required in order to permit business, government and, indeed, all facets of society the opportunity to minimize any disruption to industries and people.

The Government of Ontario has a significant role to play in the process. It already has policies and programs in place which are assisting people and business adapt to economic change. Additional efforts will be required from it to assist the adaption to a bilateral trade arrangement. There are a number of other initiatives the Government of Ontario should undertake in addition to the trade adjustment programs that will be required. The provincial economy must reorganize if it is to meet the challenges that expanded trade with the United States will demand. Increased competition from products and companies in the province and in export markets make these changes necessary. This increased competition is not simply from U.S. companies but is also coming from other parts of the world. Markets in Europe and Asia are difficult to enter and be successful in.

Ontario companies are often unprepared to cope with this competition. We have some superb manufacturers, resource companies and services companies. We also have numerous companies that are not used to exporting and that have developed for a small, protected market in Canada. Both foreign-owned Canadian subsidiaries of multinational companies and domestically-owned companies fall into this category. Both must be encouraged to become more competitive by restructuring their operations for world markets. The requirements fall into four categories.

First, not enough Canadian-based companies are actively engaged in the international marketplace. Many have relied upon the protection of tariff and non-tariff barriers for security in the domestic market. Declining barriers, whether through a bilateral trade agreement or through a multilateral agreement, will leave them more vulnerable than they already are to foreign competition. These companies need to build expertise in competing and they need to build marketing capabilities by exporting.

Second, one manner in which they can develop the skills required is by engaging in joint venture arrangements with companies in other jurisdictions. Both can benefit. Canadian companies must become involved with foreign companies in their home market by providing products through marketing programs. Reciprocal marketing arrangements can offer the foreign companies access to the Canadian market. The transfer of skills, production techniques and market information would permit both to be more effective.

Third, foreign-owned subsidiaries must become innovative, by developing products and markets, and not simply by manufacturing or providing services that are developed elsewhere. If they fail to build the skills that are necessary for the international market, these foreign subsidiaries could easily find that their reason for existence disappears with the elimination of tariffs and non-tariff barriers. Plants could be shut down or they can become simply warehousing and distribution centres for the Canadian market. Canada and Ontario would lose valuable jobs and income. World product mandates are one solution for these foreign subsidiaries.

Fourth, the framework in which foreign subsidiaries fit into their parent corporation must be reassessed. Canadian subsidiaries that have no input into the decision making of their parent corporations will not be able to demonstrate how they can be competitive. If they are not involved in the investment and strategic market planning process, they will inevitably lose.

The role of the Government of Ontario in these matters may be indirect but it is nonetheless important.

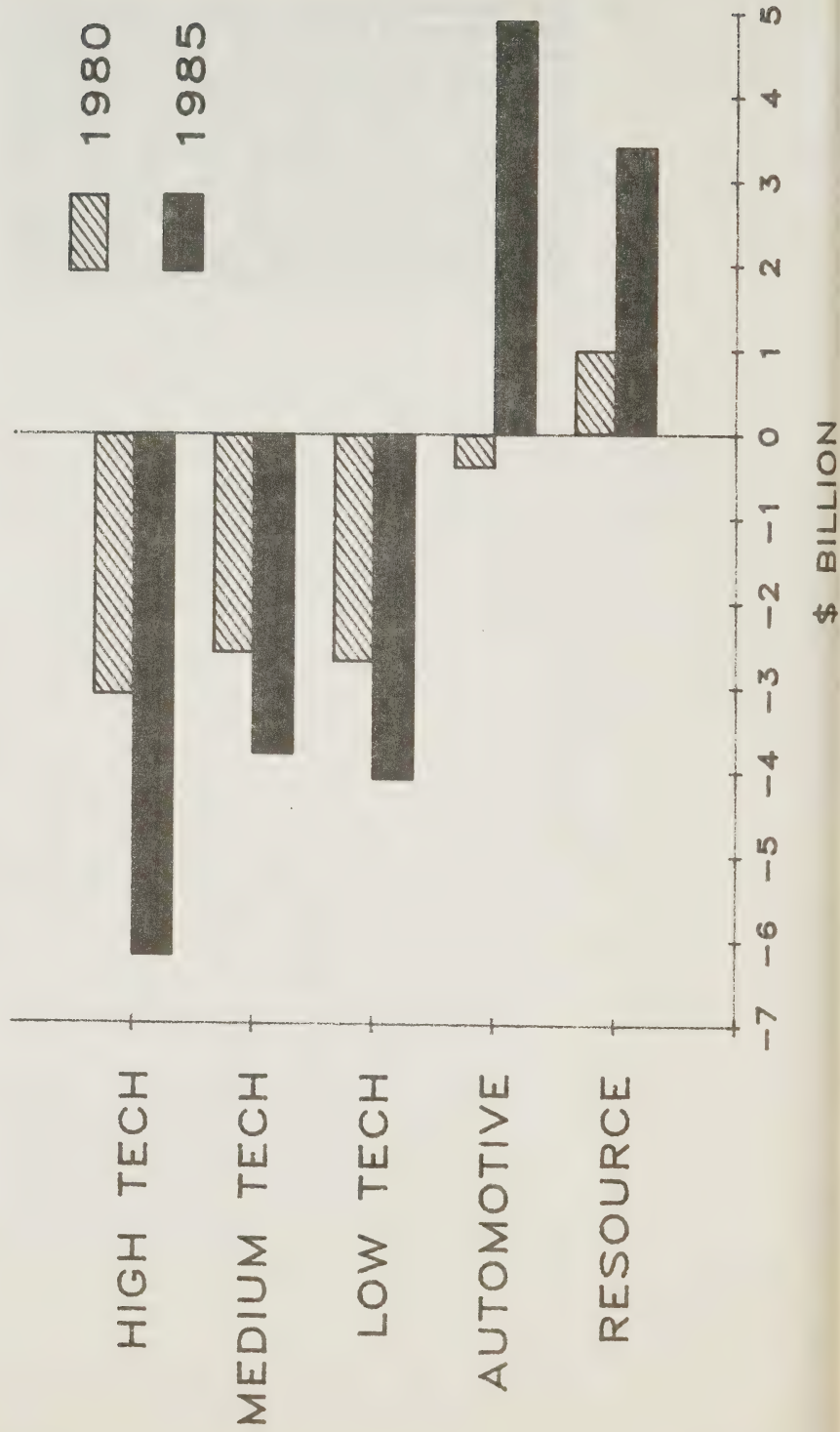
Recommendations

Your Select Committee on Economic Affairs recommends that:

35. The Government of Ontario should encourage the development and growth of Canadian-based companies active in the international market.
36. The Government of Ontario should encourage the development of more joint-ventures between Canadian companies and companies from other jurisdictions for mutual trade benefits.
37. The Government of Ontario should strengthen its efforts to persuade the foreign owners of Canadian subsidiaries to give mandates to their Canadian operations to initiate, research, develop and manufacture products for the world market. These mandates should contain sufficient scope that the Canadian subsidiaries can adapt their production to meet changing market requirements.

38. The Government of Ontario should encourage the foreign owners of Canadian subsidiaries to develop bottom-up planning where their Canadian subsidiaries can originate business plans, provide input to overall corporate planning and operate with more autonomy within the corporate structure. The Committee believes that this corporate structure has the best possibility of minimizing any ill effects of adjustment to a trade agreement between Canada and the United States. Furthermore, this corporate structure is more likely to lead to a dynamic, healthy economy.

ONTARIO'S TRADE BALANCE BY TECHNOLOGY GROUP



Existing, operating companies are not the only areas that require support. There are numerous underdeveloped companies in industries that are essential for Canada's future. For example, there are high technology industries that are not yet internationally competitive. Canada must develop viable international companies in these industries if we are to have a high standard of living and productive work in the next century. Many methods have been used to support these types of new industries. The tools governments have most often used, and which have been successful numerous times in the past, are special trade barriers and subsidies. By restricting the access of foreign competitors by means of a tariff, these struggling companies have time to develop products and establish markets. Subsidies have been used to assist these companies in their start-up phases, in research or in product development. The Committee is concerned that the Canadian and provincial governments would lose their ability to offer these forms of special assistance. A bilateral free trade agreement that eliminates tariff and non-tariff barriers across-the-board would not even permit these companies to become established. Unrestricted imports from major producers with tremendous economies of scale would prevent Canada from building these industries. Until these industries build up and are capable of withstanding foreign competition, they should be specifically exempted from any bilateral agreement. This exemption should be phased-out as competitiveness increases.

Recommendations

Your Select Committee on Economic Affairs recommends that:

39. A bilateral trade agreement should provide exemptions which would permit the protection of new or underdeveloped industries sufficiently so they can have the opportunity to strengthen into national and international competitors.
40. In cooperation with industry and labour, the Government of Ontario should develop the competitiveness of the province's economy through greater support for: research and development; the technological upgrading of the manufacturing industries; improved skills training oriented to new technologies; and the building of technologically advanced industries. These efforts to enhance the productivity and competitiveness of the province's economy should firmly place expanding trade as a priority in a broad economic policy framework.

LIST OF RECOMMENDATIONS

Your Select Committee on Economic Affairs recommends that:

1. The Governments of Canada and Ontario should engage in efforts to strengthen the multilateral system of trade. The Government of Ontario should also encourage the Government of Canada to reduce the impediments to trade internationally through the General Agreement on Tariffs and Trade.
2. The Government of Ontario should suggest to the Government of Canada that it regard the upcoming talks on the General Agreement on Tariffs and Trade as the primary vehicle for opening up and enhancing Canada's international trading opportunities.
3. The Government of Ontario should encourage the Government of Canada in its efforts to strengthen the role of the General Agreement on Tariffs and Trade particularly in the arbitration and expeditious settlement of trade disputes by improving the efficiency of its operations and the enforcement of its decisions.
4. The Government of Ontario should encourage the Government of Canada to use the proposed new round of negotiations under the General Agreement on Tariffs and Trade as a way of preventing further damaging consequences to world agricultural trade. These negotiations should give priority to establishing a set of international rules to balance the conflicting needs of the agricultural industries in both developed and developing nations.
5. The Government of Ontario should encourage the Government of Canada to try to incorporate a distinction into the General Agreement on Tariffs and Trade on the eligibility of countries for the special differential treatment provisions. Less developed countries (LDCs) should continue to receive special differential treatment for their products. A new process should be established for newly industrialized countries (NICs) which will allow for the phasing-out of this special differential treatment as countries become internationally competitive.

6. The Government of Ontario should make greater efforts to expand and diversify our trading relationships with other countries.
7. Interprovincial barriers to trade should be reduced regardless of any international trade agreements. The initiatives for the reduction of interprovincial barriers, recently signed by provincial trade ministers in Belleville, Ontario, is a positive first step in this direction. The province of Ontario should continue to show leadership in this regard.
8. Given that the Government of Canada and the Government of the United States are engaged in trade negotiations, the goal of these negotiations should be to reduce or eliminate barriers to trade between our two countries in a mutually beneficial manner.
9. Any discussions should be a forum for reinforcing the good trade relationship that has historically existed between Canada and the United States, and for clarifying the fact that Canada has consistently been a fair trader in the United States market.
10. The Government of Canada and the Government of the United States should mutually agree to discourage contingency protection actions until the trade negotiations are completed.
11. A bilateral trade dispute resolution tribunal should be set up to arbitrate trade disputes expeditiously as they arise between Canada and the United States and to enhance public information on bilateral issues. This tribunal should be established regardless of the outcome of any trade enhancement negotiations.
12. The tribunal that is agreed upon by both countries should provide sufficient scope and prospect for eliminating any bias or influence that could be caused by the disparities between the participants.
13. This tribunal should be composed of balanced representation and should consider all information pertinent to the trade dispute. The tribunal should be empowered to determine the facts in the dispute and to provide the Government of Canada and the Government of the United States with their conclusions and decisions in a timely manner. These decisions should be binding on both governments to the fullest possible extent.

14. In the cases of disputes over subsidies, the tribunal shall consider the balance of government benefits for an industry on both sides of the border in its determination of the facts.
15. Any discussions and possible agreements on trade between Canada and the United States should provide assurances that Canada's position as a sovereign, independent state will not be impinged upon.
16. It is imperative that the Canadian Government guarantee that we do not compromise our social, cultural, regional and linguistic heritage in any trade discussions with the United States. Any possible trade agreement should specifically protect Canada's continuing right to ensure economic support and incentives for its culture. Furthermore, any agreement should specifically recognize that federal and provincial programs designed to alleviate social, economic or regional disparities are a legitimate exercise of governmental responsibility. Therefore, these policies and programs should not be subject to arbitrary action through the contingency protection laws in the United States.
17. The Government of Canada should ensure that any bilateral trade agreement recognize Canada's rights and responsibilities as a sovereign country to establish the rules and conditions for investment in this country. The Government of Ontario should suggest to the Government of Canada that the rules and conditions for investment be clarified so they are known and objectively applied.
18. All of the provincial governments of Canada should have full and complete consultation and participation in any bilateral trade negotiations, and play a meaningful role in any dispute resolution mechanism.

19. Any agreement that arises from these bilateral trade negotiations should only be approved with the substantial agreement of the provinces of Canada in matters of provincial concern.
20. A clear process for the ratification of a bilateral trade agreement should be established so as to avoid the possibility of constitutional difficulties by ensuring full and open discussion, and national and provincial consensus, on the terms of any bilateral trade agreement.
21. Although the U.S. Food Security Act was not directly aimed at Canadian agricultural trade, it has had serious, harmful effects on our agricultural sector. The Governments of Canada and Ontario should register their strong protests over the results of the Act with the United States Government.
22. While the agricultural sector is under discussion in the bilateral trade negotiations, this Committee does not believe that these negotiations will solve the difficulties that exist in the bilateral trade of agricultural products. Because of the particular problems and sensitivities of the country's and the province's agricultural sectors, Ontario should not enter into any agreement that harms its agricultural programs.
23. Existing trade arrangements previously agreed to between Canada and the United States – such as the Automotive Products Agreement (the Autopact) and the Defence Production Sharing Agreement – should not be prejudiced by any future bilateral trade arrangements. The Autopact should not be prejudiced in any fashion as a result of the reduction or elimination of tariffs and non-tariff barriers in general or in ancillary industries.
24. A trade agreement such as the Autopact, which embodies safeguards and requires companies to provide Canadian value added, is a model agreement that should be pursued.

25. The Government of Ontario should encourage the Government of Canada to bring all automobile imports from whatever origin under legislative and regulatory systems with common rules for all participants. Those systems should have the same rules and safeguards as the Autopact between Canada and the United States. These safeguards include any memoranda of understanding that may exist between the Government of Canada and the domestic automobile companies which delineate the amount of production which must occur in Canada in order to be eligible for tariff free access to the Canadian market.
26. Companies not presently part of the Autopact should be permitted a defined period of time in which to comply with its terms. Compliance with the Autopact should supersede any other existing automobile agreements between the Government of Canada and automobile companies not presently a part of the Autopact.
27. Insofar as a bilateral trade agreement incorporates the concept of reciprocal "National Treatment" of goods, services and companies from the other country, this "National Treatment" should not interfere with the continuing rights of the Federal and Provincial governments to legislate and regulate economic activity for the protection and common benefit of Canadians.
28. The Government of Canada should seek to reduce the restrictions on the interprovincial and international trade in the services sector in accordance with a possible agreement between Canada and the United States. The reduction of legislative and regulatory restrictions should occur in an orderly and reciprocal manner so as to ensure the continued protection of the consumers of the province and the continued employment of the people of Ontario.
29. The Government of Ontario should establish an Ontario House in Washington, D.C. in order to assist Ontario business and other groups — in cooperation with the Government of Canada — in developing a greater means of enhancing its trading relationship and communicating their trade concerns with the United States.

30. Appropriate committees of the Ontario Legislature should meet regularly with American legislators to discuss areas of mutual economic concern.
31. Governments, business, labour and other organizations should initiate programs to allow for the employment, training, geographic relocation and social needs of people affected by any trade arrangements.
32. Because a possible bilateral trade agreement could entail significant social and economic costs to business, individuals and communities as the economy adjusts to a more competitive environment, the Government of Canada should finance any additional burden on the Canadian people and on provincial governments that might arise from such a bilateral trade agreement.
33. The Government of Canada should assess the implications of a bilateral agreement upon the budgetary deficit.
34. A bilateral trade agreement should have an appropriate phasing-in period where required in order to permit business, government and, indeed, all facets of society the opportunity to minimize any disruption to industries and people.
35. The Government of Ontario should encourage the development and growth of Canadian-based companies active in the international market.
36. The Government of Ontario should encourage the development of more joint-ventures between Canadian companies and companies from other jurisdictions for mutual trade benefits.
37. The Government of Ontario should strengthen its efforts to persuade the foreign owners of Canadian subsidiaries to give mandates to their Canadian operations to initiate, research, develop and manufacture products for the world market. These mandates should contain sufficient scope that the Canadian subsidiaries can adapt to their production to meet changing market requirements.

38. The Government of Ontario should encourage the foreign owners of Canadian subsidiaries to develop bottom-up planning where their Canadian subsidiaries can originate business plans, provide input to overall corporate planning and operate with more autonomy within the corporate structure. The Committee believes that this corporate structure has the best possibility of minimizing any ill effects of adjustment to a trade agreement between Canada and the United States. Furthermore, this corporate structure is more likely to lead to a dynamic, healthy economy.
39. A bilateral trade agreement should provide exemptions which would permit the protection of new or underdeveloped industries sufficiently so they can have the opportunity to strengthen into national and international competitors.
40. In cooperation with industry and labour, the Government of Ontario should develop the competitiveness of the province's economy through greater support for: research and development; the technological upgrading of the manufacturing industries; improved skills training oriented to new technologies; and the building of technologically advanced industries. These efforts to enhance the productivity and competitiveness of the province's economy should firmly place expanding trade as a priority in a broad economic policy framework.

INDEX

Agriculture		
Recommendations	4	27-28
	21, 22	48-49
Automobile industry		
Recommendations	23, 24, 25, 26	50-54
Bilateral negotiations – general		
Recommendations	8, 9, 10	34-35
Dispute resolution – multilateral		
Recommendations	3, 4	26-28
Dispute resolution tribunal – bilateral		
Recommendations	11, 12, 13, 14	36-38
Economic adjustment		
Recommendations	5, 6, 7	29-33
	25, 26, 28	53-56
	31, 32, 33, 34, 35,	
	36, 37, 38, 39, 40	59-65
GATT		
Recommendations	1, 2, 3, 4, 5	22-30
Interprovincial trade barriers		
Recommendation	7	32-33
National treatment		
Recommendation	27	55-56
Ontario initiatives		
Recommendations	7	32-33
	18, 19, 20	44-47
	25	53-54
	29, 30, 31	57-60
	35, 36, 37, 38, 40	62-65
Provincial participation		
Recommendations	7	32-33
	18, 19, 20	44-47
Services		
Recommendations	27, 28	55-56
Sovereignty		
Recommendations	11, 12, 13, 14, 15, 16, 17	36-43
	27	55-56

APPENDIX A
LIST OF RECOMMENDATIONS FROM THE INTERIM REPORT

Your Select Committee on Economic Affairs recommends that:

1. The Government of Ontario should encourage the Government of Canada to engage in efforts to reduce impediments to trade internationally through the General Agreement on Tariffs and Trade.
2. The Government of Ontario should make greater efforts to expand and diversify our trading relationships with other countries.
3. Interprovincial barriers to trade should be reduced in conjunction with any agreement to reduce barriers between Canada and the United States.
4. Discussions should begin immediately to reduce interprovincial barriers to trade regardless of any bilateral action.
5. Given the Government of Canada's initiative to begin trade discussions with the United States Government, the goal of these talks should be to reduce or eliminate barriers to trade between our two countries in a mutually beneficial manner.
6. Any discussions should be a forum for reinforcing the good trade relationship that has historically existed between Canada and the United States, and for clarifying the fact that Canada has consistently been a fair trader in the United States market.
7. The Government of Ontario should be involved in any trade discussions where matters of provincial jurisdiction or interest are under consideration.
8. Before any formal trade negotiations occur, the Canadian Government and the Government of Ontario should undertake detailed analyses of the possible consequences of bilateral trade enhancement, paying special attention to the effects on particular industries and communities, in order to ensure that no industry is inadvertently disadvantaged.

9. Any discussions and possible agreements on trade between Canada and the United States should provide assurances that Canada's position as a sovereign, independent state will not be impinged upon.
10. It is imperative that the Canadian Government guarantee that we do not compromise our social, cultural, regional and linguistic heritage in any trade discussions with the United States. This heritage includes, but is not limited to, government programs such as the Medicare system; pension and social security programs; the system of Workers' Compensation Boards; National Unemployment Insurance; regional development programs; and protection for Canadian content in the nation's media.
11. Any discussions and possible agreements should specifically protect Canada's continuing right to unique social, cultural and economic policies and programs based on its own distinct needs.
12. In order to resolve the contentious trade issues between Canada and the United States, discussions between the two countries should settle the problems arising from tariffs, non-tariff barriers and government subsidies, and should determine which are legitimate, bearing in mind that Canada and the United States have distinct traditions, including different approaches to the governmental management of economic activity.
13. An international joint trade commission should be set up to arbitrate trade disputes that arise between Canada and the United States. This commission should be organized regardless of the outcome of any trade enhancement negotiations.
14. The Government of Ontario should establish an Ontario House in Washington, D.C. in order to assist Ontario exporters develop - in cooperation with the Government of Canada - a greater means of communicating their trade concerns with the United States Government and legislators.

15. Existing trade arrangements previously agreed to between Canada and the United States—such as the Autopact and the Defence Production Sharing Agreement—should not be prejudiced by any future bilateral trade arrangements.
16. A trade agreement such as the Autopact, which embodies safeguards and requires companies to provide Canadian value added, is a model agreement that should be pursued.
17. The agricultural sector should not be on the agenda for any trade discussions.
18. A bilateral trade agreement should have an appropriate phasing-in period where required in order to permit business, government and, indeed, all facets of society the opportunity to minimize any disruption to industries and people.
19. Governments should initiate programs to allow for the employment, training, geographic relocation and social needs of people adversely affected by any trade arrangements.
20. In cooperation with industry and labour, the Government of Ontario should develop the competitiveness of the province's economy through greater support for: research and development; the technological upgrading of the manufacturing industries; improved skills training oriented to new technologies; and the building of technologically advanced industries. These efforts to enhance the productivity and competitiveness of the province's economy should firmly place expanding trade as a priority in a broad economic policy framework.

APPENDIX B
TERMS OF REFERENCE

TERMS OF REFERENCE

Votes and Proceedings No. 18

Wednesday, July 10, 1985, pp. 94-96

The following Select Committee be established for this Session or otherwise as indicated, with power to examine and inquire into all such matters as may be referred to them by the House, with power to send for persons, papers and things, as provided in section 35 of the Legislative Assembly Act:

Select Committee on Economic Affairs - 11 members, with 5 from the Government Party, 4 from the Official Opposition Party and 2 from the Third Party, to examine and report to the House on an interim basis within three months, and on a final basis within one calendar year, on:

- (a) the appropriate bilateral trade options that are both consistent and pursuant to enhancing Canada's and Ontario's economic development and socio-cultural-political advancement, including considerations of:
- improving the competitiveness of the Canadian and specifically the Ontario economy
 - creating greater and better job opportunities for Ontarians of all ages
 - increasing value-added and resource processing in Canadian and specifically Ontario industries
 - securing and enhancing access to the U.S. market for Ontario's manufacturers, resource products, and services
 - promoting and furthering Ontario's regional development
 - ensuring control of Ontario resources by the people of Ontario
 - promoting Canadian ownership of industries producing and/or marketing in Canada
 - promoting Canadian content in products which are major imports into Canada
 - providing Ontario consumers with access to a wide range of products at reasonable prices
 - stimulating capital and technological investment in Canada and in Ontario in particular
 - strengthening Canada's and Ontario's relationships with its other trading partners
 - promoting the standard of living and social progress of Canadians and Ontarians in particular, and the ability of all people of Ontario to participate in increased economic prosperity

- providing a positive environment for Canadians and for Ontarians in particular to further advance their political-socio-economic development and to promote the well-being of each individual Ontario resident.
- (b) the appropriate considerations and factors which are integral to the evaluation of the advantages and disadvantages of negotiating a Canada-U.S. bilateral trade agreement, including considerations on:
- the impact, in the short term and the medium term, of removing barriers to bilateral trade on Ontario economic activity and employment, and the desirability of introducing policies to aid and assist firms, workers and regions in Ontario during the transition period as well as to exploit the opportunities created by secured and enhanced access to the U.S. market
 - the impact of a bilateral trade agreement on the structure of and the level as competition of Ontario industries, and the operations of a Canadian- and foreign-owned enterprises
 - the impact of a bilateral trade agreement on individual Ontario communities, particularly those which are heavily dependent on one industry
 - the impact of a bilateral trade agreement on current economic growth and employment and future economic growth and employment in Ontario in particular
 - the impact on investment in production facilities, capital equipment and research and development by Canadian-and foreign-owned enterprises
 - the implications for current federal-provincial arrangements in economic, social, and cultural policy areas
 - the implications for labour and labour markets, including skilled labour requirements and retraining programs
 - the implications for Canadian-sovereignty and federal-provincial relations
 - the implications for Canadian and related Ontario domestic policies in areas such as fiscal, tax, financial, cultural, employment and social policy areas
 - the implications for Canada's and Ontario's trade relations with its other major trading partners
 - the implications for labour laws and environmental standards
 - an evaluation of the likely issues which the United States would want to have resolved as part of a Canada-U.S. trade agreement, including such things as foreign investment policy, policies affecting the service and financial sectors and so on.

- (c) the appropriate goals and objectives for entering bilateral trade negotiations with the United States, including considerations of:
- how existing Ontario jobs will be protected in all sectors
 - how economic growth in Canada can be stimulated so as to provide the maximum number of new jobs in Ontario
 - whether to seek negotiations in a comprehensive sector or functional or sectoral basis
 - the need for Canadian content requirements on all major imports into Canada
 - the rules to govern the use of non-tariff measures such as government procurement and in the United States and Canada as they affect bilateral trade and Ontario's direct interests and their complementarity to the GATT rules where they exist
 - which trade importing measures, and which industries, might warrant consideration of exclusion from bilateral trade negotiations
 - likely assurances that Canada will not be restricted from adopting policies which would encourage the development of Canadian-owned industry
 - desirable transition measures and safeguards to be included in any bilateral trade agreement to ensure an orderly adjustment of economic activity in the interests of Ontario and the full realization of the benefits secured and enhanced access to the U.S. market
 - the appropriate time-frame for implementing any negotiated agreement
 - the appropriate negotiating structures in the two countries including Ontario's role
 - the appropriate structures for consultations with, and participation by, the provinces, private sector, and other groups
 - the appropriate mechanisms and bilateral institutions for dispute resolution and monitoring of compliance of commitments
 - the appropriate form and means of implementation into Ontario legislation of the commitments under a new bilateral agreement.

And that the Select Committee have authority to sit during adjournments and the interval between sessions and have full power to employ such staff as it deems necessary and to hold meetings and hearings in such places as the Committee may deem advisable, subject to budget approval from the Board of Internal Economy.

APPENDIX C
LIST OF WITNESSES

LIST OF WITNESSES

Friday, 21 February 1986

10:00 a.m.

Professor Fred Lazar
York University

Arthur Donner
A.R.A. Consultants

Norman Mogil
A.R.A. Consultants

Wednesday, 9 April 1986

10:00 a.m.

Professor Peter Dungan
Policy and Economic Analysis Program
Institute for Policy Analysis,
University of Toronto

Professor Richard Simeon, Director,
School of Public Administration,
Queen's University

2:00 p.m.

Dr. Jack Baranson
Illinois Institute of Technology

Thursday, 10 April 1986

10:30 a.m.

Professor Richard G. Harris
Queen's University

2:00 p.m.

Carl Beigie, Director and Chief Economist,
Dominion Securities Pitfield Limited

James K. Stewart, Vice-President and Economist
Dominion Securities Pitfield Limited

Friday, 11 April 1986

10:00 a.m.

Canadian Chemical Producers' Association:
Graham Gibb, Director,
Economic Affairs

G.F. Bentley, Group Vice-President,
Rubber and Plastic, Polysar Ltd.

Dr. John Blachford, President,
H.L. Blachford Ltd.

D. Stuart Hay, President
Agriculture, CIL Inc.

Canadian Broadcasting Corporation:
Sheelagh Whittaker, Vice-President,
Planning and Corporate Affairs

2:00 p.m.

Global Communications Ltd.:
Seymour Epstein, Chairman
Executive Committee

Monday, 14 April 1986

10:00 a.m.

Alliance of Canadian Cinema, Television and Radio
Artists:

Garry Neil, General Secretary

Roger Abbott, Member, National Executive

Meg Hogarth, Member, Toronto Performers
Branch Council

Dr. Charles Lazer, Member,
Toronto, Writers Branch Council

Comac Communications Ltd.:
John P. Barrington, President

2:00 p.m.

Canadian Authors Association:
Fred Kerner, Immediate Past President

3:00 p.m.

Maclean Hunter Ltd.:
Ronald W. Osborne, C.A., President
Harvey Botting, Assistant Vice-President

Tuesday, 15 April 1986

10:00 a.m.

Association of Canadian Publishers:
Harald Bohne, President

Malcolm Lester, Past President
Present Chairman of Publishers' Group

Marcia George, Executive Director

Canadian Book Publisher's Council:
Dr. Ray G. Lee, President, also
President, Collier Macmillan Canada Inc.

Brian Hickey, Second Vice-President, also,
President, Harlequin North America,
Book Division

Jacqueline Hushion, Executive Director

F.C. Larry Muller, First Vice-President, also,
President Scholastic-TAB Publications

St. Marys Cement Co. Ltd.:
J. Barrie Blanshard, Senior Vice-President

2:00 p.m.

Professor Fred Lazar, Economics Department
York University

Wednesday, 16 April 1986

10:00 a.m.

Canadian Advanced Technology Association:
Roy Woodbridge, President

Gordon Gow, Chairman

Edward Carrigan

2:00 p.m.

Telesat Canada:
Eldon D. Thompson, President and
Chief Executive Officer

Chris J. Frank, Program Manager

Wednesday, 16 April 1986 (Continued)

3:00 p.m.

Hugh D. Allan, Chairman
Emerson Electric Canada Ltd.

Ministry of Intergovernmental Affairs:
Gary Posen, Deputy Minister

David Morel, International Relations Officer

Thursday, 17 April 1986

10:00 a.m.

Consulting Engineers of Ontario:
William Weinstein,
Executive Director

Acres International Ltd.:
Jack Baker, Vice-President
Corporate Marketing

Malcolm Martini,
Head of Economic and Planning Department

2:00 p.m.

Canadian Meat Council:
David Adams, General Manager

Institute of Management Consultants of Ontario:
Donald B. Hathway, President 1985/86

Friday, 18 April 1986

10:00 a.m.

Canadian Independent Computer Services
Association:
William H. Loewen, C.A., Executive Director

Don Turner, Director

Professor Hugh Lawford, Member

Thursday, 5 June 1986

10:00 a.m.

Ministry of Intergovernmental Affairs:
Mr. G.S. Posen
Deputy Minister

Thursday, 17 July 1986

1:00 a.m.

Mr. Fernando Traficante
Committee Researcher

2:00 p.m.

Ministry of Agriculture and Food
Mr. Bob Seguin
Director
Economics and Policy Coordination Branch

Dr. Gary N. Lentz, Manager
Policy Development

Mr. Richard Kaine
Policy Advisor

Mr. Tom Crozier
Policy Advisor

Mr. Dave Thomson
Policy Advisor

Mr. Brian Doidge
Policy Advisor

Tuesday, 22 July 1986

(Canadian Embassy, Washington D.C., U.S.A.)

Embassy Library
1746 Massachusetts Ave., N.W.

8:45 a.m.

Briefing by Ambassador

10:00 a.m.

Mr. L. Butcher
Canada Desk, State Department

11:00 a.m.

Mr. W. Cavitt
Special Advisor on trade negotiations to the
Deputy Assistant Secretary of Commerce for the
Western Hemisphere

Tuesday, 22 July 1986 (Continued)
(Canadian Embassy, Washington D.C., U.S.A.)

12:00 noon	Mr. W. Merkin Deputy Assistant United States Trade Representative for Canada
2:00 p.m.	Mr. G. Weise Professional Staff - Majority (Democrat) House Trade Sub-Committee
	Ms. T. Askey Professional Staff - Minority (Republican) House Trade Sub-Committee
3:00 p.m.	Committee on Ways and Means
3:30 p.m.	Congressman Bill Frenzel, from Minnesota

Wednesday, 23 July 1986
(Canadian Embassy, Washington D.C., U.S.A.)

9:00 a.m.	Embassy Library Dr. P. Morici Vice-President, National Planning Assn.
10:00 a.m.	Ms. R. Conroy Dow, Lohnes and Albertson
11:00 a.m.	Mr. W. Barreda Director, International Trade Treasury Department
1:00 p.m.	Mr. Keith Farrell Executive Director (Resources for the Future)
2:15 p.m.	Mr. F. Stokeld Executive Secretary, USA Section Committee on Canada/U.S. Relations U.S. Chamber of Commerce
3:00 p.m.	Dr. C. Doran Director, Canadian Studies Program John Hopkins School of Advanced International Studies
4:00 p.m.	Mr. R.K. Morris Director, International Trade National Association of Manufacturers

Thursday, 24 July 1986

10:00 a.m.

Mr. L. Santos
Majority (Republican) Trade Counsel
Senate Committee on Finance

Mr. J. Lang
Minority (Democrat) Trade Counsel
Senate Committee on Finance

Mr. W. Reinsch
Chief Legislative Assistant to Senator J. Heinz
(Republican - Pennsylvania)

Tuesday, 5 August 1986

10:00 a.m.

General Motors of Canada Limited
Mr. Stephen Van Houten
Manager of Business Planning and Trade Analysis

Mr. Norman J. Stewart
Director of Government Relations

Ministry of Industry Trade and Technology
Mr. Robert E. Latimer
Special Trade Policy Advisor

Wednesday, 6 August 1986

10:00 a.m.

Mr. Fernande Traficante
Legislative Researcher

American Motors Canada Limited
Mr. Allan McPhee, Director of Public Relations

Thursday, 7 August 1986

10:00 a.m.

The Honourable Donald S. MacDonald
McCarthy & McCarthy

Monday, 11 August 1986
(Ottawa, Ontario)

10:00 a.m.

American Embassy

Mr. Dwight Newell Masson
Minister of the U.S. Embassy

Mr. James R. Tarrant
Minister Counsellor of Economic Affairs

Mr. Malachy Todd Minnies
First Secretary of the U.S. Embassy

Mr. Don Smith
Economic Advisor

1:30 p.m.

Mr. Frank Stone, Director
International Economics Program
Institute for Research on Public Policy

2:30 p.m.

Canadian Textiles Institute

Mr. Eric Barry
President

Liz Siwicki
Director
Trade Policy Services

Des McLaughlin
Market Development Manager
Textile and Household Business Group
Polyester Division
Celanese Canada Inc.

R.L. Jones
Plant Site Manager
Celanese Canada Inc.

3:00 p.m.

University of Ottawa
Prof. Ruth Sullivan

4:00 p.m.

Mr. D. Hammer
Ambassador for the Commission of the European
Economic Community

5:00 p.m.

Ms. Sylvia Ostry
Ambassador for Multilateral Trade Negotiations
and the Prime Minister's Personal
Representative for Economic Summit

Tuesday, 12 August 1986
(Ottawa, Ontario)

10:00 a.m.

Mr. Allan Nymark
Assistant Chief Negotiator
Trade Negotiations Office

Mr. C. Steadman
Economic Advisor

Ministry of State for External Affairs
Mr. D. Campbell
Assistant Deputy Minister

3:30 p.m.

The Honourable Thomas Hockin
Minister of State for Finance

Wednesday, 13 August 1986

10:00 a.m.

The Ontario Lumber Manufacturing Association
Mr. Jean Roy
Executive Consultant

Mr. Yvon Martel
President

2:00 p.m.

Ministry of Consumer and Commercial Relations
Mr. Bernard Webber
Acting Deputy Minister
Registration Division

Ms. Joyce Feinberg
Director of Policy & Planning Branch

Mr. J. Ackroyd
Liquor Control Board

Mr. David Mitchell
Acting Executive
Director of Business Practices

Mr. John Peck
Executive Assistant to the Executive Director of
Technical Standard Division

3:00 p.m.

Ford Motor of Canada Limited
Mr. A.E. Matthews Jr.
Vice-President
Finance & Administration

Mr. A.J. Tony Fredo
Director of Public Affairs

Mr. David Rehor
Treasurer

Thursday, 14 August 1986

10:00 a.m. Ontario Public Service Employees Union (O.P.S.E.U)
 Mr. James Clancy
 President

 Mr. Sean Usher
 Director of Education and Campaigns

 Mr. Lukin Robinson, Economist

2:00 p.m. Canadian Auto Workers
 Mr. Robert White
 President

 Mr. Sam Gindin
 Assistant to the President

Friday, 15 August 1986

10:00 a.m. Mr. D. Lewis, M.P. (Simcoe North)

10:30 a.m. Ministry of Industry Trade and Technology
 Mr. Patrick J. Lavelle
 Deputy Minister

 Mr. David Barrows
 Director, Policy

 Mr. John Brady
 Manager, Trade Policy

Monday, 18 August 1986

10:00 a.m. Draft Report

2:00 p.m. Draft Report

Tuesday, 19 August 1986

10:00 a.m. Draft Report

2:00 p.m. Draft Report

Wednesday, 20 August 1986

10:00 a.m. Draft Report

2:00 p.m. Draft Report

Thursday, 21 August 1986

10:00 a.m. Draft Report

Wednesday, 20 August 1986

10:00 a.m. Draft Report

2:00 p.m. Draft Report

Thursday, 21 August 1986

10:00 a.m. Draft Report

Monday, 15 September 1986

10:00 a.m.

to Finalizing the Report

5:00 p.m.

APPENDIX D
LIST OF SUBMISSIONS

5 December 1985

- Exhibit No. 186 MINISTRY OF INDUSTRY, TRADE AND TECHNOLOGY:
Background Information dated September 1985: Canada-
U.S. Free Trade, U.S. Perspectives and Approaches.
Prepared by Edward Nef (Edward Nef Associates).
- Exhibit No. 187 MINISTRY OF INDUSTRY, TRADE AND TECHNOLOGY:
Background Information dated September 1985:
Assessment of Likely Impact of a U.S. - Canadian Free
Trade Agreement upon the Behavior of U.S. Industrial
Subsidiaries in Canada (Ontario), Prepared by: Dr. Jack
Baranson, Illinois Institute of Technology.
- Exhibit No. 188 MINISTRY OF INDUSTRY, TRADE AND TECHNOLOGY:
Background Information dated November 1985:
Assessment of Direct Employment Effects of Freer Trade
for Ontario's Manufacturing Industries.

21 February 1986

- Exhibit No. 189 D. COOKE, M.P.P.:
Memorandum dated February 12, 1986 from David Cooke,
M.P.P. (Kitchener), with attached submission from: Free
Trade Sub-Committee, Government Policies Committee,
Kitchener Chamber of Commerce.
- Exhibit No. 190 CANADIAN MEAT COUNCIL:
Policy Statement dated February 6, 1986: Freer Meat and
Livestock Trade with the U.S.A. from the perspective of
the Canadian Meat Council.
- Exhibit No. 191 A.R.A. CONSULTANTS:
Report dated December 1985 from Arthur Donner and
Norman Mogil, A.R.A. Consultants: Canada-U.S. Free
Trade in High-Technology Products.
- Exhibit No. 192 PROFESSOR F. LAZAR:
Report dated February 21, 1986 from Professor Fred
Lazar, York University: Summary of Study on the
Employment Effects of a Free Trade Agreement with the
U.S.
- Exhibit No. 193 PROFESSOR R. HARRIS:
Report dated February 1986 from Prof. R.D. Harris,
Queen's University
- Exhibit No. 194 COMMITTEE CLERK:
Press Clippings.

9 April 1986

- Exhibit No. 195 LEGISLATIVE RESEARCH OFFICER:
Press Clippings.
- Exhibit No. 196 LEGISLATIVE RESEARCH OFFICER:
Memorandum dated April 9, 1986 from Fernando
Traficante, Research Officer: Comparison of the
Consultants' Simulations of the possible effects of
Bilateral Free Trade on Ontario
- Exhibit No. 197 CANADIAN CHEMICAL PRODUCERS' ASSOCIATION:
Background Information: Policy Principles Concerning A
Proposed Canada-U.S. Free Trade Agreement With
Particular Reference to Bilateral Trade in Chemicals.
- Exhibit No. 198 PROFESSOR R. SIMEON:
Submission dated April 1986 from Richard Simeon,
Director, School of Public Administration, Queen's
University, Kingston.

11 April 1986

- Exhibit No. 199 CANADIAN CHEMICAL PRODUCERS' ASSOCIATION:
Submission dated April 11, 1986 from Graham Gibb,
Director of Economic Affairs.
- Exhibit No. 200 CANADIAN BROADCASTING CORPORATION:
Submission dated April 11, 1986 from Sheelagh Whittaker,
Vice-President, Planning and Corporate Affairs: Free
Trade and Broadcasting: The American View and
Canadian Realities.
- Exhibit No. 201 CANADIAN BROADCASTING CORPORATION:
Background Information.
- Exhibit No. 202 GLOBAL COMMUNICATIONS LTD.:
Submission from Seymour Epstein, Chairman of the
Executive Committee.

14 April 1986

- Exhibit No. 203 ALLIANCE OF CANADIAN CINEMA, TELEVISION AND
RADIO ARTISTS:
Submission dated 31 March 1986 from Charles Lazer,
Ph.D., ACTRA Writers Guild, Toronto Branch: - "Write if
you get work: Free Trade, Film and Television and
Canada"

- Exhibit No. 204 J.P. BARRINGTON:
Submission dated April 14, 1986 from John P. Barrington,
President, Comac Communications Limited, Yonge
Eglinton Centre, 2300 Yonge St., Toronto M4P 1E4
- Exhibit No. 205 CANADIAN AUTHORS ASSOCIATION:
Submission dated June 21, 1986 (sic).
- Exhibit No. 206 MACLEAN HUNTER LTD.:
Submission dated April 14, 1986 from Ronald W. Osborne,
President
- Exhibit No. 207 LEGISLATIVE RESEARCH OFFICER:
Press Clippings.
- Exhibit No. 208 LEGISLATIVE RESEARCH OFFICER:
Background Information dated September 1984: Trade
Barriers to U.S. Motion Picture and Television,
Prerecorded Entertainment, Publishing and Advertising
Industries. CBS Inc.
- 15 April 1986
- Exhibit No. 209 ASSOCIATION OF CANADIAN PUBLISHERS:
Submission dated April 15, 1986 from the Association of
Canadian Publishers, 70 the Esplanade 3rd Floor, Toronto
M5E 1R2: "Free Trade, Cultural Sovereignty and the
Case for Canadian Ownership in the Book Publishing
Industry".
- Exhibit No. 210 CANADIAN BOOK PUBLISHERS' COUNCIL:
Submission dated April 15, 1986 from the Canadian Book
Publishers' Council, 45 Charles St. East, Suite 701,
Toronto M4Y 1S2.
- Exhibit No. 211 ST. MARYS CEMENT LTD.:
Submission.
- Exhibit No. 212 PROFESSOR F. LAZAR:
Report dated March 1986 from Professor Fred Lazar,
York University: Potential Employment Effects of a
Bilateral Free Trade Agreement on Manufacturing
Industries in Ontario.
- Exhibit No. 213 LEGISLATIVE RESEARCH OFFICER:
Press Clippings.

16 April 1986

- Exhibit No. 214 CANADIAN ADVANCED TECHNOLOGY ASSOCIATION:
Background Information: (Overhead slides).
- Exhibit No. 215 E. CARRIGAN:
Submission from Edward Carrigan, 358A Delaware
Avenue, Toronto M6H 2T8.
- Exhibit No. 216 LEGISLATIVE RESEARCH OFFICER:
Press Clippings.
- Exhibit No. 217 MINISTRY OF INTERGOVERNMENTAL AFFAIRS:
Background Information dated April 11, 1986: Testimony
of Ambassador Clayton Yuetter, United States Trade
Representative, before the U.S. Senate Finance
Committee on U.S.-Canada Trade Negotiations.
- Exhibit No. 218 TELSAT CANADA:
Submission: Telesat Corporate Position on Free Trade
between Canada and the U.S.

17 April 1986

- Exhibit No. 219 CONSULTING ENGINEERS OF ONTARIO:
Submission dated April 17, 1986 from Consulting
Engineers of Ontario, 86 Overlea Blvd., Toronto M4H 1C6.
- Exhibit No. 220 ACRES INTERNATIONAL LTD.:
Submission dated April 17, 1986 from Jack S. Baker, Vice-
President, Corporate Marketing, 480 University Ave.,
Toronto M5G 1V2.
- Exhibit No. 221 CANADIAN MEAT COUNCIL:
Policy Statement dated February 6, 1986: Freer Meat and
Livestock Trade with the U.S.A. from the Perspective of
Canadian Meat Council.
- Exhibit No. 222 INSTITUTE OF MANAGEMENT CONSULTANTS OF
ONTARIO:
Submission dated April 17, 1986 from Donald B.
Hathaway, CMC, President 1985/86, and David Talbot,
CMC, President Elect.
- Exhibit No. 223 LEGISLATIVE RESEARCH OFFICER:
Press Clippings.

18 April 1986

- Exhibit No. 224 CANADIAN INDEPENDENT COMPUTER SERVICES ASSOCIATION:
Submission dated April 18, 1986.
- Exhibit No. 225 CANADIAN INDEPENDENT COMPUTER SERVICES ASSOCIATION:
Discussion Paper dated August 8, 1985 from Policy and Strategy Branch, Ministry of State for Science and Technology:- Canadian Trade in High-Technology: An Analysis of Issues and Prospects.
- Exhibit No. 226 CANADIAN INDEPENDENT COMPUTER SERVICES ASSOCIATION:
Chapter 10 of Report dated March 1979 from the Consultative Committee on the Implications of Telecommunications for Canadian Sovereignty.
- Exhibit No. 227 LEGISLATIVE RESEARCH OFFICER:
Memorandum dated April 18, 1986 from Patrick Malcolmson, Research Officer, re: U.S.A. Senate Veto of Bi-Lateral Free Trade Negotiations.
- Exhibit No. 228 LEGISLATIVE RESEARCH OFFICER:
Press Clippings.

29 May 1986

- Exhibit No. 229 LEGISLATIVE RESEARCH OFFICER:
Memorandum dated May 14, 1986 from Barbara Cotton, Research Officer: Further Work the Committee Stated it would Undertake in its Interim Report.
- Exhibit No. 230 LEGISLATIVE RESEARCH OFFICER:
Press Clippings and American Consulate Newsbrief re: Recent Tariff Imposition.
- Exhibit No. 231 LEGISLATIVE RESEARCH OFFICER:
Table of Contents.
- Exhibit No. 232 TRADE NEGOTIATIONS OFFICER:
Background Information dated September 1985 from W.A. Dymond: Economic Effects of Trade Liberalization with the U.S.A.: Evidence and Questions. By A.R. Moroz and Gregory J. Meredith.
- Exhibit No. 233 TRADE NEGOTIATIONS OFFICER:
Background Information dated April 1986 from W.A. Dymond: Institutional Provisions and Form of the Proposed Canada-United States Trade Agreement. By Frank Stone.

- Exhibit No. 234 **TRADE NEGOTIATIONS OFFICER:**
Background Information dated January 1986 from W.A. Dymond: Economic Impacts of Enhanced Bilateral Trade: National and Provincial Results. Informetrica Limited. (One copy only.)
- Exhibit No. 235 **TRADE NEGOTIATIONS OFFICER:**
Background Information dated January 1986 from W.A. Dymond: Unit Cost Comparisons for Canadian and American Industries. Data Resources of Canada. (One copy only.)
- Exhibit No. 236 **TRADE NEGOTIATIONS OFFICER:**
Background Information dated January 1986 from W.A. Dymond: Economic Integration-Some Aspects of the European Experience. By A.W.A. Lane. (One copy only.)
- 5 June 1986
- Exhibit No. 237 **MINISTRY OF INTERGOVERNMENTAL AFFAIRS,
INTERNATIONAL RELATIONS BRANCH:**
Submission dated June 5, 1986 entitled "U.S. Contingency Protection Laws - Summary".
- Exhibit No. 238 **LEGISLATIVE RESEARCH OFFICERS:**
Summary of hearings - July 23-October 7, 1985, February 21, April 9, 11, 14-18, 1986 - by Barbara Cotton, David Neufeld and Fernando Traficante, Research Officers, dated June 2, 1986.
- Exhibit No. 239 **LEGISLATIVE RESEARCH OFFICERS:**
Memorandum dated June 4, 1986 from Fernando Traficante, Research Officer re: Issues Examined by the Select Committee on Economic Affairs in Relation to its Terms of Reference.
- Exhibit No. 240 **LEGISLATIVE RESEARCH OFFICERS:**
Memorandum dated June 4, 1986 from David Neufeld, Research Officer re: Future Direction of the Select Committee.
- Exhibit No. 241 **LEGISLATIVE RESEARCH OFFICERS:**
Press Clippings.

17, July 1986

- Exhibit No. 242 MINISTRY OF AGRICULTURE AND FOOD:
Submission dated July 14, 1986, from Bob Seguin,
Director, entitled "Food Security Act of 1985".
- Exhibit No. 243 LEGISLATIVE RESEARCH OFFICER:
Letter dated July 15, 1986 from Fernando Traficante
Research Officer re: Comparison of Industrial Subsidy
Programs in Ontario with Four U.S. States - California,
Michigan, New York and Tennessee.
- Exhibit No. 244 LEGISLATIVE RESEARCH OFFICER:
Background Information dated June 1986: Canadian
Adjustment Assistance Programs prepared by Beth Ward,
Research Officer.
- Exhibit No. 245 LEGISLATIVE RESEARCH OFFICER:
Background Information dated July 1986 from Fernando
Traficante, Research Officer, entitled "Appeal
Procedures to the United States Unfair Trade Rulings".
- Exhibit No. 246 LEGISLATIVE RESEARCH OFFICER:
Background Information dated July 1986 from Philip
Kaye, Research Officer, entitled "Interprovincial Barriers
to Trade".
- Exhibit No. 247 LEGISLATIVE RESEARCH OFFICER:
Press Clippings.
- Exhibit No. 248 ONTARIO MINISTRY OF AGRICULTURE AND FOOD:
Submission dated July 17, 1986 U.S. Farm Bill and its
Implications.
- Exhibit No. 249 CADAPSO:
Background Information dated June 9, 1986 entitled
"Freer Trade in the Information Services Industry between
Canada and the United States.
- Exhibit No. 250 J. MCGUIGAN, M.P.P.
Press Clippings.

23, July 1986

- Exhibit No. 251 NATIONAL CENTER FOR FOOD AND AGRICULTURAL
POLICY RESOURCES FOR THE FUTURE:
Mr. K.R. Farrell, Director

- Exhibit No. 251(A) RESOURCES FOR THE FUTURE:
Washington, D.C. Brochure
- Exhibit No. 252 CANADA-U.S. TRADE NEGOTIATIONS RESEARCH
STUDIES - MARCH 1986:
Raymond F. Farley, Chairman Washington, D.C.
- Exhibit No. 253 A CANADA-U.S.
MECHANISM FOR TRADE DISPUTE RESOLUTION:
Charles F. Doran
- Exhibit No. 254 TRADE & INDUSTRY:
Dismantling Protectionism:
NAM's Goals for Trade Talks with Canada Clippings.
- Exhibit No. 254(A) Statements made by: NAM International Trade Policy
Committee entitled:
"Negotiating Authority", "Trade and National Security",
"Dumping and Private Damages", "Reform of the Escape
Clause".

5 August 1986

- Exhibit No. 255 CASE WESTERN RESERVE UNIVERSITY SCHOOL OF
LAW:
Written Submission entitled "Federalism and Foreign
Economic Relations" by John Quinn.
- Exhibit No. 256 CANADIAN APPLIANCE MANUFACTURES
ASSOCIATION:
Submission entitled "The Impact of Comprehensive Free
Trade with the United States on the Major Appliance
Industry in Canada".
- Exhibit No. 257 LEGISLATIVE RESEARCH OFFICER:
Background Information dated August 1986 from Fernando
Traficante, Research Officer, entitled "Canadian Special
Trade Investigation Procedures".

7 August 1986

- Exhibit No. 258 HONOURABLE DONALD S. MACDONALD
Brief entitled "America's Place in the World Market",
dated July 24, 1986.

11 August 1986

- Exhibit No. 259 THE INSTITUTE FOR RESEARCH ON PUBLIC POLICY:
Statement made by Frank Stone, Director, International
Economics Program dated August 11, 1986.
- Exhibit No. 259(A) THE INSTITUTE FOR RESEARCH ON PUBLIC POLICY:
Report entitled "Canada In International Trade
Negotiations", by Gerry Salembier dated May 1986.
- Exhibit No. 259(B) THE INSTITUTE FOR RESEARCH ON PUBLIC POLICY:
Discussion paper by Frank Stone, entitled "Institutional
Provisions and Form of Proposed Canada-United States
Trade Agreement", dated April 1986.
- Exhibit No. 260 CANADIAN TEXTILES INSTITUTE:
Submission entitled "Brief Description of Organization
and Industry" written by Eric Barry dated August 11,
1986.

12 August 1986

- Exhibit No. 261 INDEPENDENCE AND INTERNATIONALISM:
Report of the Special Joint Committee of the Senate and
of the House of Commons on Canada's International
Relations by Senator Jean-Maurice Simard and Tom
Hockin, M.P. dated June 1986.

13 August 1986

- Exhibit No. 262 UPSHALL, MACKENZIE AND KELDAY:
Barristers & Solicitors Brief entitled "Canadian
Association of Japanese Automobile Dealers", dated
August 1986.
- Exhibit No. 262(A) THE COOPERS & LYBRAND CONSULTING GROUP:
Brief entitled "The Five Years Since the Introduction of
Voluntary Export Restraints (Quotas) on the Importation
of Japanese Cars in Canada", dated April 22, 1986.
- Exhibit No. 263 THE INSTITUTE FOR RESEARCH ON PUBLIC POLICY:
Book entitled "Canada The GATT and the International
Trade System", by Frank Stone.
- Exhibit No. 264 ONTARIO LUMBER MANUFACTURERS ASSOCIATION:
Brief written by Yvon Martel, President dated August 13,
1986.

Exhibit No. 265 MINISTRY OF CONSUMER AND COMMERCIAL
RELATIONS:
Brief entitled "Possible Impact of Canada-U.S. Free Trade
Negotiations of Consumers Interests" by Bernard Webber
dated August 13, 1986.

Exhibit No. 266 FORD MOTOR COMPANY OF CANADA:
Remarks by Mr. A.E. Matthews, Jr., Vice-President on
Canada-United States trade on Economic Affairs.

14 August 1986

Exhibit No. 267 ONTARIO PUBLIC SERVICE EMPLOYEES UNION:
Brief entitled "Free Trade and the Public Sector", dated
August, 1986.

Exhibit No. 268 OFFICE OF THE PREMIER:
Notes for an Address to the Nation on the Trade Initiative
by Prime Minister Brian Mulroney, dated June 16, 1986.

15 August 1986

Exhibit No. 269 DOUGLAS G. LEWIS, M.P. (Simcoe North)
Brief entitled "Survey of the Attitude of Manufacturing
Companies in Simcoe North Toward the Canada/U.S.
Trade Negotiations", dated August 14, 1986.

Exhibit No. 270 JAPAN AUTOMOBILE MANUFACTURERS
ASSOCIATION:
J.A.M.A. Canada - 1985 Report, A Summary of the
Japanese Automobile Industry in Canada.

APPENDIX E
SUMMARY OF COMMISSIONED STUDIES

SPECIAL STUDIES

The following are summaries of four studies which the Select Committee on Economic Affairs commissioned during its examination of the effects on Ontario of a bilateral free trade agreement between Canada and the United States. These studies were commissioned because the Committee felt that there was a serious lack of material on how bilateral free trade might specifically affect the economy of the province. Most of the available work had focussed solely upon the implications for the economy of the country as a whole. (Copies of these four studies can be obtained from the Committee Clerk.)

In addition, Professor R. Simeon of Queen's University presented to the Committee an analysis of the problems for Canadian federalism that a bilateral free trade agreement might cause. The Committee includes, with his permission, a short summary of his analysis.

1. Dr. A. Donner and Mr. N. Mogil, A.R.A. Consultants, "Canada-U.S. Free Trade in High-Technology Products" (December 1985)
-

This study consisted of an economic analysis of the high technology industries, and interviews with organizations and individuals knowledgeable in the industries.

There are several factors that bear directly on the situation of Canada's high technology industries. Most of these industries already operate in a low tariff or tariff-free environment. Those industries with relatively higher tariff protection – such as telecommunications and industrial chemicals – have developed substantial export markets and depend financially upon expanding these export markets. U.S. non-tariff barriers are more effective for protecting the U.S. high technology industries than Canada's non-tariff barriers are for its industries. The phenomena of global product mandating is having a more fundamental impact upon decisions to locate plants in Canada than are tariff and non-tariff barriers. The Canadian domestic market is insufficient to maintain profitable growth in all high technology sectors. Comparative advantage is a concept which is less useful in the context of high technology industries than it is in other industries. Comparative advantage in technology industries is what the government makes of it; because of our past neglect of the high technology industries, we do not have a strong advantage in this area.

A removal of tariff and non-tariff barriers will have little effect on either employment and investment in Canada's high technology industries. The office equipment, telecommunications equipment and aerospace industries will experience a net increase in employment. Chemical manufacturers and scientific instruments will either experience some slight reduction in employment or no change at all. It is not likely that U.S. controlled subsidiaries will pull up stakes in Canada and move to the United States. The outlook for new investment in Canada is mixed depending on the industry in question. On balance, the Canadian industry will not experience any significant change in investment patterns due to the implementation of a free trade arrangement. Investment patterns will be dictated according to the growth in U.S. demand and Canada should receive its historical share of that new investment.

It is important to bear in mind that Canada poses no threat to the United States in high-technology products. Canadian exports are generally used as components in large systems rather than for the consuming public so there will likely be less public opposition in the United States to obtaining greater access to the U.S. market. Many high technology products are purchased by government for military purposes. We cannot expect total free trade in this area because government does not purchase certain products and services in a truly free and competitive manner. On the other hand, governments can create an advantage for companies trading in high technology products by supporting research and development, and by preferential purchasing policies. The Canadian industry is largely underdeveloped compared to its U.S. counterparts and is in need of Canadian government support.

Canada is in a situation where much of its industry is foreign owned; there is little chance of this changing. The least we can do, then, is to encourage foreign-owned subsidiaries to behave as their Canadian counterparts and be more aggressive in export markets.

Canada should maintain its right to pursue its own industrial support programs for high technology. Canada should support its high technology industries in a manner similar to the way the United States does. This support must be in a form which is not countervailable, as any discriminatory action by the United States would defeat the point of assisting these industries.

2. Professor P. Dungan, Institute for Policy Analysis, University of Toronto, "The Macroeconomic Impacts of Free Trade with the U.S.: Lessons from the Focus-Prism Economic Model" (October 1985)
-

This study uses computer-simulation models of the Canadian and Ontario economies to examine the potential magnitude and timing of macroeconomic impacts of free trade with the United States. It also explores how these impacts can vary depending on assumptions made about pricing behaviour, the exchange rate, fiscal policy and productivity gains. The macroeconomic models used in this study do not include the depth of industry analysis which would permit the examination of the impacts of any rationalization and re-structuring that could be expected among industries as they adjust to new trading opportunities. Instead, the models employed here are useful in examining the potential magnitudes and duration of economy-wide disturbances. They can also show how these disturbances may vary depending on the responses of the monetary and exchange rate authorities and the pricing responses of Canadian firms, and they indicate what possible offsets fiscal policy might achieve.

Five separate experiments were conducted. In each, Canada-U.S. tariffs were set to zero starting in 1986. The five simulations were:

- i) fixed exchange rates;
- ii) floating exchange rates;
- iii) floating exchange rates and a sluggish price response;
- iv) floating exchange rates and a personal income tax increase to offset federal government revenue losses due to tariff cuts; and
- v) floating exchange rates with an assumed total productivity growth of 0.3 percent per year for ten years (for a total of 3 percent), although no allowances are made for the costs of adjustment that occur along the way to achieving this productivity growth.

The most significant gains in real gross domestic product (RGDP) in both Canada and Ontario were found using the fifth simulation. After ten years, RGDP was projected to grow by 3.3 percent in Canada and 3.8 percent in Ontario. Real wages also showed a significant increase based partly on the indirect tax change and partly on enhanced labour productivity. Unfortunately, in the last years of the experiment there is little improvement in employment or the unemployment rate because most of the additional output is obtained from enhanced productivity and not from increases in employment.

There are three major conclusions that one can draw from these experiments. First, a tariff cut can have a modest fiscal impact on national output and employment that can help ease the adjustments to free trade. This result increased with a flexible exchange rate. Second, the positive results can be diminished or eliminated if interest rates are raised in order to keep the dollar high relative to the U.S. currency. Furthermore, the positive results from a tariff elimination can also be reduced if the federal government attempts to recover lost revenue by increasing personal income taxes. Third, the results of a tariff elimination depend upon whether firms react by using lower input costs to raise profit margins or to price more aggressively, and whether government policy, especially monetary policy, accommodate to the enhanced capacity of the economy.

3. Professor R.G. Harris, Queen's University, "The Adjustment of the Ontario Economy to a Canada-U.S. Free Trade Arrangement" (February 1986)

This study investigates the medium term employment effects of alternative bilateral free trade arrangements on the Ontario economy. The model used is an econometric model of the Canadian economy as a whole which generates projections for Ontario by apportioning the province's share of employment, output, etc. based upon recent history. The model has some features which permit a detailed breakdown of the results for each of twenty-nine major industries and sectors. In the model: unemployment is industry specific; wages adjust sluggishly to changes in labour demand; and industry capacity restricts output increases in the short run.

Five simulation results were examined which varied the rate in which tariff elimination under bilateral free trade was phased in, plus a policy alternative for the Autopact was examined to contrast with the positive results. In the first simulation, both Canada and the United States are assumed to eliminate tariffs and non-tariff barriers to trade evenly over a ten year period. In the second, this elimination occurs over a shorter period of five years. In the third, a differential phase-in occurs with the United States removing their trade barriers in five years while Canada removes its in ten years. The fourth and fifth simulations examine the effect of U.S. protectionism on Ontario's economy by, respectively, increasing U.S. tariffs across-the-board by 25 percent on Canadian products, and by increasing U.S. tariffs by 25 percent only on automotive trade.

In the case of all three tariff reduction policies the actual rate of aggregate unemployment in Ontario is reduced by small but significant amounts. The policy which allows Canada a longer period to lower its barriers results in a fall in aggregate unemployment five years into the agreement of approximately 0.1 to 0.15 percent.

There would be a net creation of jobs from any of the three alternative free trade arrangements contemplated. The number of jobs created in Ontario would be somewhere between 6,000 to 12,000 after ten years. In terms of job creation the policy allowing Canada a longer period in which to reduce its trade barriers would yield the greatest positive impact on employment, although not by a wide margin.

If policies are ranked in terms of their impact on gross provincial output, then the policy of faster reduction in barriers in both countries dominate slower reduction schemes. Under all three policies gross provincial output would be greater in 1995 by 2.6 to 3.3 billion dollars. Ontario therefore clearly gains through a Canada-U.S. free trade area.

The manufacturing industries within Ontario are the principal beneficiaries of a Canada-U.S. free trade area as measured by increases in employment and wages. The Service and Primary industries do not benefit to the same extent. The Primary industries within Ontario experience a small loss in employment as labour shifts into the manufacturing sector.

The costs to the Ontario economy of increased U.S. protectionism is enormous. An across the board tariff by the United States of 25 percent would create a loss of approximately 80,000 jobs in Ontario at a minimum over a ten year period. For those individuals still employed real wages would fall in excess of 8 percent over the same period. To the extent that a Bilateral Free Trade agreement could mitigate the risk of future U.S. protectionism the benefits from such an agreement would be substantial.

In conclusion the possible job loss and unemployment effects of a Canada-U.S. free trade arrangement which is phased in over a five to ten year period seem to be minimal. Indeed the results suggest that unemployment ought to be reduce, although the magnitudes involved are small. The principal gains of a free trade area are the long run real income and productivity gains that a small country can realize through increased specialization and a larger volume of trade. This study suggests that substantial unemployment from Canada-U.S. free trade is unlikely, and that the adjustment costs to labour in moving to a free trade area with the United States are relatively small. As the real income gains accrue largely in the manufacturing sector, Ontario has the most to gain from a Canada-U.S. free trade arrangement, and the most to lose should trading relations between Canada and the U.S. deteriorate.

4. Professor F. Lazer, York University, "Potential Employment Effects of a Bilateral Free Trade Agreement on Manufacturing Industries in Ontario" (March 1986)

The objectives of this study were to examine and assess the nature of the adjustments by ten Ontario manufacturing industries to the Kennedy Round of tariff cuts and to estimate the employment impacts on these same ten industries of some form of free trade arrangement with the United States. The study consisted of a statistical evaluation, personal interviews and a questionnaire survey of a random sample of 380 manufacturing companies in Ontario.

Results from the interviews provided three conclusions. First, the potential effects of bilateral free trade have not yet been incorporated into the planning process of companies. Second, more production will be shifted offshore as the trend towards the internationalization of production continues, and it will be difficult to maintain current employment levels in North American manufacturing. Third, most of the companies interviewed were in the process of moving to bottom up planning where business plans originate with the major operating or geographic division. The role of the Ontario subsidiary in the overall corporate structure determines its ability to affect its input in corporate planning, which determines whether the Ontario subsidiary operates as an autonomous unit or will simply manufacture or distribute products originating in the United States. Canadian subsidiaries in the latter situation would probably lose employment or even shut down under a free trade agreement.

The survey showed some important results. Companies reported that, with a free trade arrangement, employment changes of the following magnitudes would occur by 1995: losses of 2 to 7 percent for Canadian-controlled companies; losses of 6 to 16 percent for foreign-controlled companies; and losses of 3 to 10 percent for all companies. These latter estimates imply a potential loss – that is, fewer jobs than there might be if there is no bilateral free trade arrangement – of 20,000 to 67,000 jobs in 1995. In addition, companies were particularly concerned that a free trade arrangement contain four specific provisions: first, a long phase-in period; second, no change in the Autopact; third, elimination of Buy America statutes; and fourth, Autopact-type safeguards for other sectors.

While there does not appear to be any net job creation effect from bilateral free trade, the results in this study suggest that a strong, vibrant economy would more than compensate for any potential net decline in the number of jobs resulting from bilateral free trade. As long as Canadian negotiators do not make concession after concession, gaining little in return, in order to reach an accord, and there is a reasonable transition period (5 years would seem to be appropriate), then the real danger in the free trade discussions is that they may divert our attention from the threats and opportunities associated with the increased internationalization of production and from the policy environment required to generate strong and stable economic growth.

Free trade, in whatever form, will not be the panacea for our economic ills. The more attention we focus on the source of these ills and the less we pay to the free trade discussion, the better off we will be.

5. Professor R. Simeon, Queen's University, "Ontario, Federalism, and Free Trade" (April 1986)
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In the Canadian tradition, the ratification of treaties is a crown prerogative, transferred to the Canadian Governor-in-Council under the letters patent of 1948. Thus, there is neither a legislative nor a federal element in how Canada formally accedes to a treaty – in contrast to the United States where the provision for Senate ratification brings in both components. The existing federal power to sign and ratify treaties has only limited consequences. This is because, as a result of the Labour Conventions Case of 1937, the federal government's power to make treaties has not been extended to the power to implement them. Implementation requires legislation to give effect to treaties; a treaty does not automatically become the law of the land within Canada once it is ratified. And when it comes to implementation, sections 91 and 92 of the Constitution Act, dividing authority between federal and provincial governments operate. Therefore Ottawa cannot pass implementing legislation in areas of provincial jurisdiction, it can only do so in its own jurisdiction.

When treaties are mostly about scarcity and diplomatic affairs, the traditional domain of international relations, provincial interests have little role to play. Nor do they when international trading arrangements involve tariffs, which are clearly within federal jurisdiction. But when, as in recent years, the issues centre on non-tariff barriers, then the federal problem does arise. Now purchasing policies, subsidies, the regulation and taxing of resources, and a host of other matters within provincial jurisdiction become subjects of international negotiation. This will be especially true for the free trade negotiations with the U.S., since tariffs are already low, and are not considered to be the major item on the agenda by either country.

To achieve its minimal objectives, a bilateral free trade agreement must constrain provincial and state, as well as federal, activities. The irony is that the more effective the agreement is in doing so, the less capable the Canadian federal government is of making and implementing it alone; and the more it will have to depend on provincial consent and provincial legislation to give it effect.

There is one line of reasoning which might point the other way and which may well give the federal government greater scope, if not necessarily in implementing a bilateral free trade agreement, then at least in regulating and policing provincial activities inconsistent with it. Although section 91 (2) of the Constitution Act, 1867 gives the federal government power of international and interprovincial trade, the courts have interpreted this power very narrowly. In order to protect the provinces, the court made a sharp distinction between inter and intra provincial trade, preserving the latter from federal interference. A bilateral free trade agreement could do much to destroy the distinction because it could now make quite explicit that economic activities within a province had ramifications for international trade, and it could therefore lead the courts to include more of the activities within the purview of the federal government, under the trade and commerce power.

International commercial arrangements are likely to be more and more important to Canada's economic future in any case, so the issue has to be addressed. Some way must be found to reconcile the internal division of powers with international requirements. On the one hand, we need to ensure that any trade treaty is binding and enforceable on the provinces; and, on the other, to guarantee the provinces an effective role in negotiation, ratification, and implementation. The more we need the former, the more important becomes the latter.

Free trade weakens rather than strengthens governments; it shifts power to private economic actors. It also means that economic linkages, whether within Canada or between it and the United States are no longer to be defined, regulated and mediated by and through governments, but are to be left to private actors. In this sense it becomes harder and harder to think of Canada in a free trade arrangement as an economic entity, much less one whose destiny could be directed by a central government. Ottawa simply becomes less important both for the provinces (all of which would open Washington offices) and for the private sector.

Provinces too would tend to become less important as economic actors, but relative to Ottawa, it is entirely possible that free trade would constrain them less than it did the federal government. Thus it could be that the effect of free trade would be fragmenting and decentralizing: undermining rather than strengthening federal powers. When one considers the historically most important federal powers — tariffs, monetary and fiscal policy — all of them have much less weight or effectiveness in a free-trading world and an open economy. The more relevant economic powers then become things like education, training, industrial relations, i.e., the whole set of policies that affect competitiveness and productivity. But it is these kinds of policies that are largely provincial. And it is these kinds of policies that are largely immune from being "bargained away" — because they are generally not seen to be non-tariff barriers.

National, central authority has always been greatest in Canada when the federal government has been able to mobilize sufficient support for a "National Policy" that could only be achieved through federal action, whether it was the National Policy of the 19th Century, or the creation of the Keynesian welfare state in the post-World War II decades. Free trade is another national strategy, to be sure, but one that denies the very notion of a national policy and denies the federal government the power to mount one, even if it could be defined.

Hence, initiative if not power may shift much more to the local and provincial level, as well as from the public to the private sector.

APPENDIX F
NEW DEMOCRATIC PARTY DISSENT

Ontario New Democratic Party Dissent on

The Issue of Free Trade

prepared for the Select Committee on Economic Affairs

August, 1986

The New Democratic members of the Select Committee on Economic Affairs cannot agree with the perspective of the majority.

It is now clear that the concerns expressed by Ontario New Democrats about this committee's support of free trade have been borne out by events since the adoption of the inquiry's interim report.

Our prediction that chasing the rainbow of free trade would leave us vulnerable to punitive trade measures and job losses in the short term has already become a tragic reality for thousands of Canadians. When further measures are enacted by the U.S. later this year and early next, as every indicator signals, the hypocrisy of free trade will hit the lives of many more Ontarians.

Most ironically, the speed with which the U.S. has moved to block Canada-U.S. trade in some areas, and the addition of new items to the 'list of irritants', seems to have been partly triggered by the launch of free trade talks.

The growing awareness of the folly of the federal government's initiative, with the tacit support of the Government of Ontario, is reflected in public opinion research by a variety of institutions: one in four Canadians have moved to oppose free trade in recent months, bringing their numbers close to a majority of all Canadians.

It is time for the Ontario Government to abandon its position of equivocation in the face of threats to the very core of our economy and show some national leadership on this issue. It is not good enough for the Premier of our Province to simply pose questions about an issue which may determine the future of this province and our country. Ontario needs answers.

While we support a number of the recommendations in the majority report we are disappointed that the majority of the committee has failed to provide a clear and concise answer to the question: Should Ontario be in favour or opposed to the present free trade

initiative? Carefully hedged support, coiled in expressions of doubt and concern, were not what we expected from this inquiry. This dissent will attempt to offer some clear alternative directions, echoing and amplifying the concerns expressed six months ago.

Both the evidence that was presented to the committee and the ongoing public forum have failed to present any conclusive evidence on the concrete benefits of free trade. Where will the new jobs be created and what industries will benefit - these questions remain unanswered. On the other hand both supporters and non-supporters of free trade agree that many jobs will be lost and industries threatened. A study by the Ontario Ministry of Industry, Trade and Technology released in the Fall of 1985 has indicated that nearly 300,000 jobs in Ontario are "very sensitive" (i.e. are jeopardized) by a free trade agreement. Evidence presented to the committee suggests that this figure is understated by 150,000. Other witnesses appearing before the Committee told us that 20,000 jobs in the textile and clothing industry, 10,000 jobs in household furniture, 45,000 jobs in the electrical sectors and over half of brewery jobs are at risk. And yet we are being asked by such people as the Hon. Donald MacDonald to make a "leap of faith" and accept free trade as a solution to our economic problems.

Ontario must take the lead in urging the federal government to change the direction of the bilateral negotiations currently under way. A new focus to the talks would encompass the following changes:

- 1) drop the "free trade" objective, even under the GATT definition
- 2) drop the comprehensive nature of the talks
- 3) use the negotiating teams already put together to help resolve the current trade disputes
- 4) put in place an ongoing bilateral mechanism for resolving current and future trade disputes
- 5) stop acting on the philosophy of "everything-is-on-the-table"
- 6) start with nothing on the table, then bring those critical disputes that need resolution forward

Such a shift in focus for Canadian negotiators should not be seen as faint-hearted. It is simply defensible as a good bargaining strategy.

The supporters of a bilateral free trade agreement are presenting their arguments in the wrong terms as are the Liberal and Conservative members of this committee. They present the choices as either a comprehensive bilateral free trade agreement with the U.S. or reliance on the status quo which they say will cause the economic decline of Canada. But these are not the only choices. Maintaining the status quo is not the only alternative to free trade. In fact, a free trade agreement would enforce the status quo.

Our closeness to and reliance on the U.S. has largely been responsible for the imbalance of our economy with its large trade surpluses in resources and a staggering deficit of \$20 billion in manufactured goods in 1985. There is little evidence that the same strategy of economic dependence on the U.S. and so-called market forces will change rather than simply reinforce the economic imbalance it developed in the past.

The Ontario New Democratic Party members of this committee believe that Canada's future economic and social development must be based on a balanced, multi-faceted approach that doesn't put all our eggs in one free trade basket. We believe in an alternative industrial strategy to the comprehensive bilateral free trade approach that:

- 1) recognizes regional economic concerns as legitimate and deserving of special treatment
- 2) supports domestic industry by creating an import substitution program to reduce certain job-intensive imports
- 3) introduces a program of domestic content legislation that forces multinationals selling in Canada to provide Canadians with a fair share of jobs
- 4) builds and diversifies Canadian industries with domestic savings and encourages domestic investment to reduce Canada's dependence on foreign investment
- 5) expands and diversifies our international trading links to reduce our dependence on the U.S. market
- 6) supports multi-lateral trade discussions that give substance to the principle of fair trade that was embodied in the original GATT
- 7) supports efforts at removing the growth of non-tariff barriers to international trade in every appropriate international forum.

It is only through following such a co-ordinated economic plan that will allow us to develop our industrial strength that is a necessary pre-condition for open competition. As the auto industry has proven, economic intervention including trade safeguards are necessary to develop new and efficient industries.

With the "everything-is-on-the-table" approach of the current talks, the Auto Pact is about to come under scrutiny despite our objections. Indeed, until the free trade talks began there was absolutely no momentum to open up the Auto Pact for renegotiation. Now, however, the U.S. could use the Auto Pact as a bargaining chip to get significant concessions from Canada in other industries.

A further danger is that Canadian negotiators themselves could give up the Auto Pact in order to get concessions from the Americans. A free trade agreement would in all probability see the removal of the safeguards for Canadian auto production, safeguards that both the automakers and autoworkers testified to this committee are still vital to the continuing strength of the Canadian auto industry. This is unacceptable.

Both the North American auto makers and the CAW warned the committee that unless the Auto Pact is extended to include offshore auto manufacturers who wish to sell in Canada, at least 40,000 jobs will be lost in the next few years. Canada would benefit from the application of the Auto Pact to offshore producers as this would increase the Canadian value added and thus increase both the number of jobs and the wage levels that accompany them. The U.S. would also benefit from a broader application of the Auto Pact by Canada. This is an area where both Canada and the U.S. can benefit and, accordingly, Ontario must urge the federal government to bring the offshore auto manufacturers into the Auto Pact.

Some free trade advocates have hailed the Auto Pact as their model for a comprehensive treaty, which simply indicates that they either don't know what the Auto Pact is or are confused about free trade. If Canada-US trade relations in lumber or steel were as carefully planned, monitored, and shared as automotive production it would be a different and more equitable world - but given current US attitudes and the obvious structural differences between the auto industry and other Canadian industries this is unlikely to occur. In any event this is clearly not what the US has indicated is their version of free-trade.

The stated objective by both parties continues to be the establishment of a comprehensive bilateral free trade agreement using the GATT definition of free trade. Such an agreement would require the elimination of all barriers and restrictions on substantially all trade (in practice 80% usually fulfils this requirement).

Based on recent events this objective appears questionable, although one thing is very clear: the U.S. knows exactly what it is going after while Canada's objectives are both fuzzy and shifting.

Paul Volcker, Chairman of the U.S. Federal Reserve, stated clearly in a seminar on "Critical Issues in the U.S. Economy" in April of this year, that the U.S. strategy is to lower its trade deficit with Canada by \$10 billion through reducing its imports and increasing its exports. More specifically, Ronald Reagan indicated right at the beginning of the free trade talks in a letter to the Chairman of the Senate Finance Committee that he would like to see the following in any agreement:

- 1) agreement on intellectual property rights
- 2) elimination of tariffs
- 3) access to federal and provincial government contracts
- 4) reduction of subsidies and support to industry
- 5) open trade in services
- 6) resolution of outstanding disputes particularly lumber, in U.S. favour
- 7) assurances of provincial co-operation (end of certain areas of provincial jurisdiction, i.e. liquor and beer)

In addition, the U.S. has already secured concessions from Canada on the NEP, FIRA, Cruise testing and generic drugs in advance of the actual negotiations. In return, Mulroney's "special relationship" with Reagan has brought us shakes and shingles, lumber, wheat and steel. On the other hand, if you are the Soviet Union you can expect subsidized wheat from the U.S. This only reinforces our point that the Americans will always act in favour of their own immediate economic self interests notwithstanding any ideological interests or free trade agreements. Clearly Canada is already at a competitive disadvantage and this pandering to U.S. interests must stop.

What the Canadian government wants out of this negotiation is becoming more and more obscure. Initially Mr. Mulroney wanted "free trade", then "freer trade", enhanced trade, and secure access to the U.S. for existing markets. As the talks got underway, Joe Clark noted "countervail is at the heart of these negotiations" (although we have been told categorically that the U.S. will never give up its right to impose countervail). The Minister of International Trade has also told us that "...we will certainly make the public aware in a much more detailed manner -- what our objectives are." The Canadian public has yet to find out.

The initiation of comprehensive free-trade negotiations was a mistake and has changed the focus of U.S. attention away from its much bigger trade deficit problems with Japan to its trading relationship and trade deficit with Canada. Canada continues to lose in current disputes as we make concessions to the U.S.

Since serious preparation for the talks has begun, the U.S. has imposed countervailing duties on Canadian hogs, groundfish, additional duties on steel drill pipe, tariffs on cedar shakes and shingles, a pending countervail action on softwood lumber (that threatens the loss of 60-70,000 direct jobs in Canada). In fact, Ambassador Clayton Yeutter, U.S. Trade Representative, wrote a letter saying that unless Canada voluntarily reduces its steel exports to the U.S., the free trade talks are in considerable jeopardy.

Ironically it is in most of these areas where Canada enjoys a comparative advantage and free trade already exists (softwood lumber, shakes and shingles, steel) that are now being subject to new tariffs and countervail action. Where free trade exists the U.S. is not happy and thus it is naive to think that a formal free trade agreement will automatically assure us access to the U.S. market. U.S. political pressures will always ensure that its trade policy will be responsive to problems in its economy -- not Canada's!

In addition, the U.S. trade negotiator has said that he wants to look at our social programs and how they relate to subsidies and the level of trade. U.S. programs for unemployment insurance and medicare are minimal compared to Canada. Regional heritage and diversity is not part of the U.S. melting pot. To the Americans culture is just another commercial industry. Yet these things -- that distinguish us from the U.S.-- will be jeopardized if we continue these talks in their current state.

The ability of Canada to remain as an independent sovereign nation able to pursue her own course in both domestic and international policy would be jeopardized by any free trade agreement with the U.S. Even the Macdonald Royal Commission states "Moreover, closer trade relations will increase the force of U.S. political influence at both levels of Canadian government. In future bilateral disputes unrelated to trade in goods and services...the American government might be tempted to threaten the suspension or unilateral alteration of any existing free-trade agreement, in order to persuade Canada to accept a compromise that was relatively more favourable to U.S. interests." In short, we believe acceptance of a free trade agreement would foist upon us the American way of life. Perhaps that is a price some are willing to pay, but we are not.

Nor do we feel that the present "fast track" approach in which an agreement must be reached by late 1987 (only one year away) is conducive to such comprehensive talks. The negotiation of the Auto Pact alone took nearly two years.

It is absurd to think that a treaty altering the most fundamental aspects of two countries' trade relations - in every conceivable area directly and indirectly - can be negotiated in a year. GATT negotiations, operating on much more modest agendas are measured in decades, sectoral trade agreements such as the Multi-fibre Agreement are phased in five year cycles.

The only outcome of such a schedule is a bad outcome - where the larger and more powerful player in the talks can force concessions given the pressure of time. When the blackmail of industry by industry punitive trade action is added to the 'fast track' pressure, the consequences for Canada are predictable - as recent events have demonstrated.

Nevertheless, we in the New Democratic Party understand the threat of U.S. protectionism is a real one and we are committed to resolving the growing trade frictions between our two countries.

We recommend that the talks be redefined to deal with the development of a mechanism to resolve specific disputes, to prevent disputes from reaching the countervail stage, to develop common understandings and definitions, and to establish a fair trading code of conduct that recognizes the need to protect jobs on both sides of the border. We believe this is a realistic and achievable goal. However, it must be recognized that many trade concerns between Canada and the U.S. (i.e. auto, agriculture, steel) are not bilateral issues but are of a multi-lateral, world-wide nature that can only be resolved in the international forum.

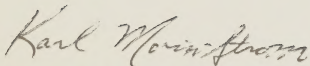
We also support the creation of a federal-provincial "Secure Trade" program that would monitor U.S. trade developments and assess their implications for Canada and assistance to Canadian companies confronted by U.S. protectionism.

The level of trade between the U.S. and Canada is already the largest of any two countries in the world. Seventy-eight percent of Canada's exports went to the U.S. last year and 71% of our imports came from the U.S. In Ontario 91% of our exports are destined for the U.S. market. The free traders' argument that we must increase this dependence is not compelling. Canada must look for other trading partners. GATT, as the recognized world body, must be the main forum for trade liberalization. How does Canada make itself less dependent on the U.S. market and decrease its trade deficit with the rest of the world? This is the question we should be asking - and answering.

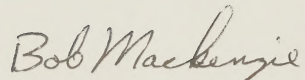
In summary, we recommend that:

- 1) the comprehensive free trade nature of the talks be abandoned and the talks refocused to deal solely with the resolution of current trade disputes and the development of a bilateral mechanism to resolve future problems
- 2) an alternative industrial strategy be pursued that encompasses recognition and special treatment of regional economic concerns, supports a program of import substitution to reduce job-intensive imports, introduces a program of domestic content legislation for multi-nationals selling in Canada and encourages the development of Canadian industry with Canadian savings.

- 3) Canada's international trading links be expanded and diversified in order to reduce our dependence on the U.S. market
- 4) multi-national trade talks through GATT, encompassing the original GATT principle of fair trade, be recognized as the primary mechanism for trade talks but that efforts to reduce the growth of non-tariff barriers working through every appropriate international forum be pursued
- 5) the federal government be strongly urged to extend the Auto Pact to all offshore auto manufacturers wishing to sell in Canada
- 6) the Ontario government show leadership in calling for the cessation of the free trade talks as they are currently formulated
- 7) regardless of the future path of the talks that social, cultural and regional economic development programs have no place whatsoever in trade talks.



Karl Morin-Strom, MPP
Sault Ste. Marie



Bob Mackenzie, MPP
Hamilton East

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